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Debtors In Possession

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: CASE NO.: 2:18-bk-20162-ER CASE NO.: 2:18-bk-20163-ER CASE NO.: 2:18-bk-20164-ER CASE NO.: 2:18-bk-20165-ER CASE NO.: 2:18-bk-20167-ER CASE NO.: 2:18-bk-20168-ER CASE NO.: 2:18-bk-20169-ER CASE NO.: 2:18-bk-20171-ER CASE NO.: 2:18-bk-20172-ER CASE NO.: 2:18-bk-20173-ER CASE NO.: 2:18-bk-20175-ER CASE NO.: 2:18-bk-20176-ER CASE NO.: 2:18-bk-20178-ER CASE NO.: 2:18-bk-20179-ER CASE NO.: 2:18-bk-20180-ER CASE NO.: 2:18-bk-20181-ER Chapter 11 Cases Hon. Judge Ernest M. Robles
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose ASC, LLC Debtors and Debtors In Possession.	**DISCLOSURE STATEMENT DESCRIBING DEBTORS' CHAPTER 11 PLAN OF LIQUIDATION (DATED SEPTEMBER 3, 2019)** Disclosure Statement Hearing: Date: _____, 2019 Time: __:__ _.m. (Pacific Time) Plan Confirmation Hearing: Date: [To Be Scheduled] Time: [To Be Scheduled] (Pacific Time) Place: Courtroom 1568 255 E. Temple Street Los Angeles, CA 90012

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TABLE OF CONTENTS

Page

I. Introduction 1
A. Disclaimer 1
B. Purpose of this Disclosure Statement 3
C. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing 4
1. Time and Place of the Confirmation Hearing 4
2. Deadline For Voting For or Against the Plan 4
3. Deadline for Objecting to the Confirmation of the Plan 4
D. Identify of Person to Contact for Copies of the Plan and Related Documents 5
II. Overview of the Debtors and the Non-Debtor Affiliates 5
A. The Debtors 5
B. The Non-Debtor Affiliates 7
C. Corporate Structure 7
III. Events Leading to the Commencement of These Chapter 11 Cases 9
A. Overview of the Debtors' Prepetition Business Operations 9
B. The Debtors' Prepetition Capital Structure 12
C. The Debtors' Prepetition Unsecured Claims 15
D. The Debtors' Retirement Related Benefit Plans 15
E. Fiscal Crisis on the Petition Date 17
1. Payor Rates 17
2. Labor Rates 17
3. Pension Plan Obligations 17
4. IT Investment 18
5. Seismic and Energy Requirements 19
6. Insurance Obligations 19
7. Medical Equipment 20
F. Working Capital Shortfalls 20
G. The Attorney General Conditions 21
IV. Significant Events During the Chapter 11 Cases 22
A. Material First-Day Motions and Related Adversary Proceeding Filed on the Petition Date 22
1. Emergency Motion to Pay the Debtors' Prepetition Priority Wages 22
2. Emergency Motion to Provide Adequate Assurance of Payment to the Debtors' Utilities 22

3. Emergency Motion for Joint Administration of these Chapter 11 Bankruptcy Cases 22
4. Emergency Motion for Authority to Honor Prepetition Claims of Critical Vendors 23
5. Emergency Motion to Maintain Cash Management Systems 23
6. Emergency Motion to Maintain Insurance Programs and Related Adversary Proceeding 23
7. DIP Financing/Cash Collateral 24
B. Motion to Implement Key Employee Incentive Plan and Key Employee Retention Plan 26
C. Motion to Reject Integrity Management Agreement 26
D. Estate Professionals, the Committee, and the Patient Care Ombudsman 27
E. Administrative Matters, Reporting and Disclosures 28
F. The SCC Sale 28
G. Motions Related to Verity Medical Foundation 31
H. The SGM Sale 32
I. Old Republic Accommodations 35
J. Motions for Relief From the Automatic Stay 35
K. Motions to Approve Settlements 36
L. Other Motions 37
1. St. Vincent IPA Expedited Relief Motion 37
2. Seoul Medical Group Expedited Relief Motion 38
M. Debtors' Adversary Proceedings 38
N. Committee's Adversary Proceedings 39
V. Plan Summary 39
A. Administrative Expense and Priority Claims 39
1. Administrative Claims 39
2. Professional Claims 40
3. Statutory Fees 40
4. Priority Tax Claims 40
5. Administrative DIP Lender Claims 41
B. Classification of Claims 41
1. Classification in General 41
2. Grouping of Debtors for Deemed Substantive Consolidation 41
3. Summary of Classification. 42
4. Special Provision Governing Unimpaired Claims 42
5. Elimination of Vacant Classes 43

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C. Treatment of Claims 43
1. Class 1A: Priority Non-Tax Claims 44
a. *Classification* 44
b. *Treatment* 44
c. *Voting* 44
2. Class 1B: Secured PACE Tax Financing Claims 44
a. *Classification* 44
b. *Treatment* 44
c. *Voting* 44
3. Class 2: Secured 2005 Revenue Bond Claims 44
a. *Classification* 44
b. *Treatment* 44
c. *Subordination* 45
d. *Voting* 45
4. Class 3: Secured 2015 Notes Claims 45
a. *Classification* 45
b. *Treatment* 45
c. *Subordination* 45
d. *Voting* 46
5. Class 4: Secured 2017 Revenue Note Claims 46
a. *Classification* 46
b. *Treatment* 46
c. *Subordination* 46
d. *Voting* 46
6. Class 5: Secured MOB I Financing Claims 46
a. *Classification* 46
b. *Treatment* 46
c. *Voting* 47
7. Class 6: Secured MOB II Financing Claims 47
a. *Classification* 47
b. *Treatment* 47
c. *Voting* 47
8. Class 7: Secured Mechanics Lien Claims 47
a. *Classification* 47
b. *Treatment* 47
c. *Voting* 47
9. Class 8: PBGC Claims 47

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(213) 623-9300

a. *Classification* 47
b. *Treatment* 47
c. *Voting* 48
10. Class 9: RPHE Claims 48
a. *Classification* 48
b. *Treatment* 48
c. *Voting* 48
11. Class 10: General Unsecured Claims 48
a. *Classification* 48
b. *Treatment* 48
c. *Voting* 48
12. Class 11: Convenience Claims 48
a. *Classification* 48
b. *Treatment* 48
c. *Voting* 49
13. Class 12: Insured Claims 49
a. *Classification* 49
b. *Treatment* 49
c. *Voting* 49
14. Class 13: 2016 Data Breach Claims 49
a. *Classification* 49
b. *Treatment* 50
c. *Voting* 50
15. Class 14: Subordinated General Unsecured Claims 50
a. *Classification* 50
b. *Treatment* 50
c. *Voting* 50
16. Class 15: Interests 50
a. *Classification* 50
b. *Treatment* 50
c. *Voting* 50
VI. Means of Effectuation and Implementation of the Plan 50
A. Conditions to Effective Date 50
B. Deemed Substantive Consolidation 51
C. Post-Effective Date Governance of Certain Entities 52
1. Post-Effective Date Board of Directors 52
2. Post-Effective Date Committee 53

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3. Liquidating Trust 53
4. Insurance Captive 54
5. Coordination Between Post-Effective Date Debtors and the Liquidating Trust 54
6. Dissolution of Certain Non-Debtor Entities on the Effective Date 55
7. Termination of Responsibilities of the Patient Care Ombudsman 55
8. Retention and Payment of Professionals Post-Effective Date 55
9. Creditor Settlement Agreements 56

VII. Distributions 56
A. Funding for the Distributions to Creditors 56
B. Distribution Mechanisms 56
C. Unsecured Claims Fund 56
D. Claims Administration 57
E. Preservation of Insurance 58
F. Executory Contracts and Unexpired Leases 58
G. Causes of Action Including Avoidance Actions 58

VIII. Effect of Confirmation 61
A. Discharge 61
B. Injunctions and Stays 61
a. *General Injunction* 61
b. *Other Injunctions* 61
C. Releases 62
a. *Releases* 62
b. *Limitations of Claims Against the Liquidating Trust* 62
c. *Debtors' Releases* 62
D. Exculpations 63
E. Termination of All Employee, Retiree and Workers Compensation Benefits 64
F. U.S. Trustee Quarterly Fees and Post-Confirmation Status Report 64
G. Retention of Jurisdiction 64

IX. Tax Consequences of the Plan 66

X. Certain Federal Income Tax Consequences of the Plan 67
A. Generally 67
B. Certain Tax Consequences to the Debtors 69
1. Generally 69
2. Gain or Loss on Sale or Exchange 70
3. Cancellation of Debt Income 70

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C. Certain Tax Consequences to the U.S. Holders of Claims 71
1. Gain or Loss 71
2. Distributions in Discharge of Accrued Interest or OID 73
3. Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests 74
a. General Tax Reporting by the Liquidating Trustee and Beneficiaries of the Liquidating Trust 75
b. Tax Treatment of the Disputed Claims Reserve and Reserve for Disputed Unsecured Claims 77
D. Information Reporting and Withholding 78
E. Importance of Obtaining Professional Tax Assistance 78
XI. Securities Law Discussion Related to Trust Beneficial Interests 79
XII. Confirmation Requirements and procedures 80
A. Who May Vote or Object 81
B. Who May Vote to Accept or Reject the Plan 81
C. What Is an Allowed Claim or Interest 81
D. What Is an Impaired Claim or Interest 81
E. Who Is Not Entitled to Vote 82
F. Who Can Vote in More Than One Class 82
G. Votes Necessary to Confirm the Plan 82
H. Votes Necessary for a Class to Accept the Plan 82
I. Treatment of Non-Accepting Classes 83
J. Request for Confirmation Despite Non-Acceptance by Impaired Class(es) 83
K. Liquidation Analysis 83
L. Feasibility 85
XIII. Risk Factors Regarding the Plan 86
XIV. Deemed Substantive Consolidation 87
A. The Effect of Deemed Substantive Consolidation 88
B. The Facts of the Chapter 11 Cases Satisfy Each Independent Basis for Deemed Substantive Consolidation 89
1. Creditors Dealt with the Debtors as a Single, Economic Unit. 90
a. The Conditions Addressed the Debtors as a Single Economic Unit. 90
b. The Debtors Obtained Secured Financing as a Single Economic Unit. 90
c. The Debtors Negotiated Major Contracts and Agreements as a Single Economic Unit. 92
2. The Debtors' Affairs Are So Entangled That Consolidation Will Benefit All Creditors 92

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XV. Post-Confirmation Issues 96
A. Modification of the Plan 96
B. Post-Confirmation Status Reports 96
C. Post-Confirmation Conversion or Dismissal 96
D. Final Decree 97

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I.

INTRODUCTION

Verity Health System of California, Inc. ("VHS") and the above-referenced affiliated entities, the chapter 11 debtors and debtors in possession (collectively, the "Debtors"), each filed a voluntary petition under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq.*, as amended (the "Bankruptcy Code")[1] on August 31, 2018 (the "Petition Date"). The Debtors' chapter 11 bankruptcy cases (the "Chapter 11 Cases") are pending in the United States Bankruptcy Court for the Central District of California, Los Angeles Division (the "Bankruptcy Court") and jointly administered under *In re Verity Health System of California, Inc.*, Lead Case No. 2:18-bk-20151-ER.

This document is the disclosure statement (the "Disclosure Statement"), which describes the *Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* (the "Plan").[2] The Plan sets forth a proposal for the resolution of Claims and the distribution of proceeds to Holders of Allowed Claims. The Plan provides that (i) a Liquidating Trustee will continue the wind-down and liquidation of the Debtors, and (ii) a Responsible Officer will oversee the operations of the Post-Effective Date Debtors during the Sale Leaseback Period in accordance with the Interim Agreements and the Transition Services Agreement. The Plan also requests the Bankruptcy Court approve and implement the terms of (i) the Creditor Settlement Agreements, if any, and (ii) documents necessary to effectuate the Plan.

A. Disclaimer

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AND THE PLAN IS INCLUDED HEREIN AND THEREIN FOR PURPOSES OF SOLICITING

[1] All references to "§" herein are to the Bankruptcy Code, unless otherwise noted. All references to "Bankruptcy Rules" are to provisions of the Federal Rules of Bankruptcy Procedure as promulgated by the United States Supreme Court under section 2075 of title 28 of the United States Code, as may be amended from time to time. All references to "Local Bankruptcy Rules" are to provisions of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California.

[2] Capitalized terms not otherwise defined in this Disclosure Statement have the definitions set forth in the Plan.

ACCEPTANCES OF THE PLAN AND DESCRIBING TREATMENT UNDER THE PLAN. THE INFORMATION CONTAINED HEREIN AND THEREIN MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN (I) TO DETERMINE HOW TO VOTE ON THE PLAN AND (II) TO DESCRIBE TREATMENT UNDER AND TERMS OF THE PLAN. ALL CREDITORS AND PARTIES IN INTEREST ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

READ THIS DISCLOSURE STATEMENT CAREFULLY FOR INFORMATION CONCERNING:

1. WHO CAN VOTE FOR, OR OBJECT TO, CONFIRMATION OF THE PLAN;

2. THE TREATMENT OF YOUR CLAIM (I.E., WHAT YOU WILL RECEIVE ON ACCOUNT OF YOUR CLAIM IF THE PLAN IS CONFIRMED) AND HOW THIS TREATMENT COMPARES TO WHAT YOUR CLAIM WOULD RECEIVE IN LIQUIDATION;

3. THE HISTORY OF THE DEBTORS AND SIGNIFICANT EVENTS DURING THEIR BANKRUPTCY CASES;

4. WHAT THE BANKRUPTCY COURT WILL CONSIDER TO DECIDE WHETHER TO CONFIRM THE PLAN;

5. THE EFFECT OF CONFIRMATION; AND

6. WHETHER THE PLAN IS FEASIBLE.

THE PLAN WILL CONTROL IF THERE IS AN INCONSISTENCY BETWEEN THE TERMS OF THIS DISCLOSURE STATEMENT AND THE TERMS OF THE PLAN. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN, THIS DISCLOSURE STATEMENT, AND THE EXHIBITS ANNEXED TO THIS DISCLOSURE STATEMENT.

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NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS REGARDING THE PLAN OR THE SOLICITATION OF ACCEPTANCES OF THE PLAN OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT OR THE PLAN. THE COURT HAS NOT YET DETERMINED WHETHER OR NOT THE PLAN IS CONFIRMABLE AND THE COURT HAS NO RECOMMENDATION AS WHETHER OR NOT YOU SHOULD SUPPORT OR OPPOSE THE PLAN.

THE FINANCIAL DATA RELIED UPON IN FORMULATING THE PLAN IS BASED ON THE DEBTORS' BOOKS AND RECORDS, WHICH ARE UNAUDITED UNLESS OTHERWISE INDICATED. THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS PROVIDED BY THE DEBTORS. FURTHER, THE DEBTORS ARE THE SOLE SOURCE OF THE INFORMATION AND THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, INCLUDING, WITHOUT LIMITATION, INFORMATION ABOUT THE DEBTORS, THEIR BUSINESSES, AND THE ESTATES' ASSETS.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN SHALL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF. ANY ESTIMATES OF CLAIMS SET FORTH IN THIS DISCLOSURE STATEMENT MAY VARY FROM THE AMOUNTS OF CLAIMS ULTIMATELY ALLOWED BY THE BANKRUPTCY COURT.

B. Purpose of this Disclosure Statement

This Disclosure Statement (i) summarizes the contents of the Plan, and (ii) provides certain information related to the Plan and the process the Bankruptcy Court will follow to determine whether or not to confirm the Plan.

You should read the Disclosure Statement and the Plan. This Disclosure Statement cannot tell you everything about your rights. You should consider consulting your own lawyer to obtain

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more specific advice on how the Plan will affect you and your best course of action with respect to the Plan.

The Bankruptcy Code requires that a Disclosure Statement contain "adequate information" concerning the Plan. The Bankruptcy Court has approved this document as an adequate Disclosure Statement, which means that this Disclosure Statement contains adequate information to enable parties affected by the Plan to make an informed judgment about the Plan.

C. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing

THE BANKRUPTCY COURT HAS NOT YET CONFIRMED THE PLAN DESCRIBED IN THIS DISCLOSURE STATEMENT. IN OTHER WORDS, THE TERMS OF THE PLAN ARE NOT YET BINDING ON ANYONE. HOWEVER, IF THE BANKRUPTCY COURT CONFIRMS THE PLAN, THEN THE PLAN WILL BE BINDING ON ALL CREDITORS AND INTEREST HOLDERS IN THESE CHAPTER 11 CASES.

1. Time and Place of the Confirmation Hearing

The hearing where the Bankruptcy Court will determine whether or not to confirm the Plan (the "Confirmation Hearing") will take place on _____, 2019, at __:__ __.m. (Pacific Time), in Courtroom 1568 of the Edward R. Roybal Federal Building and United States Courthouse, located at 255 East Temple Street, Los Angeles, California 90012, before the Honorable Ernest M. Robles, United States Bankruptcy Judge for the Bankruptcy Court.

2. Deadline For Voting For or Against the Plan

If you are entitled to vote, it is in your best interest to timely vote on the enclosed ballot and return the ballot in the enclosed envelope to Verity Vote Plan Tabulation c/o KCC, LLC, 222 North Pacific Coast Highway, Suite 300, El Segundo, California 90245. Your ballot must be received by KCC by 4:00 p.m. (Pacific Time), on _____, 2019 or it will not be counted.

3. Deadline for Objecting to the Confirmation of the Plan

Objections to the confirmation of the Plan must be filed with the Bankruptcy Court and served so that they are actually received by the following parties no later than _____, 2019 at 4:00 p.m. (Pacific Time) (i) counsel to the Debtors, Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, Attn: Tania M. Moyron, email:

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tania.moyron@dentons.com; (ii) counsel to the Committee, Milbank LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067, Attn: Mark Shinderman, mshinderman@milbank.com; (iii) counsel to the 2005 Revenue Bonds Trustee, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, Attn: Daniel S. Bleck and Paul Ricotta, dsblek@mintz.com, pricotta@mintz.com; (iv) counsel to the 2015 Notes Trustee, McDermott Will & Emery LLP, 444 West Lake Street, Suite 4000, Chicago, Illinois 60606, Attn: Nathan F. Coco, ncoco@mwe.com; (v) counsel to the 2017 Notes Trustee, Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, Minnesota 55402, Attn: Clark Whitmore, clark.whitmore@maslon.com; and (vi) counsel to the U.S. Trustee, Office of the United States Trustee, 915 Wilshire Boulevard, Suite 1850, Los Angeles, California 90017, Attn: Hatty K. Yip, hatty.yip@usdoj.gov.

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D. Identify of Person to Contact for Copies of the Plan and Related Documents

Any interested party desiring further information about the Plan should contact KCC by (i) mail at KCC, LLC, 222 North Pacific Coast Highway, Suite 300, El Segundo, California 90245; or (ii) by phone at (310) 823-9000. You may also review the Debtors' Chapter 11 Case website maintained by KCC at https://www.kccllc.net/verityhealth.

II.

OVERVIEW OF THE DEBTORS AND THE NON-DEBTOR AFFILIATES

A. The Debtors

Debtor VHS, a California nonprofit public benefit corporation, is the sole corporate member of the following five Debtor California nonprofit public benefit corporations that, on the Petition Date, operated six acute care hospitals: O'Connor Hospital ("OCH"), Saint Louise Regional Hospital ("SLRH"), St. Francis Medical Center ("SFMC"), St. Vincent Medical Center ("SVMC"), Seton Medical Center ("SMC"), and Seton Medical Center Coastside ("Seton Coastside" and, together with OCH, SLRH, SFMC, and SVMC, the "Hospitals"). SMC and Seton Coastside (collectively, "Seton") operated under one consolidated acute care hospital license. All of the Hospitals were licensed as general acute care hospitals by the California Department of Public Health.

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As of the Petition Date, VHS, the Hospitals, and their affiliated entities (collectively, "Verity Health System") operated as a nonprofit health care system in California, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, and a host of medical specialties, including tertiary and quaternary care. The scope of the services provided by the Verity Health System is exemplified by the fact that, in 2017, the Hospitals provided medical services to over 50,000 inpatients and approximately 480,000 outpatients. The Hospitals were certified to participate in the Medicare and Medi-Cal programs. In furtherance of its mission to serve the community, Verity Health System provided care to patients even though they lacked adequate insurance or participated in programs that did not pay full charges. Further information concerning each of the Debtor's operations are discussed in the *Declaration of Richard G. Adcock in Support of Emergency First-Day Motions* [Docket No. 8] (the "First-Day Declaration").

The Debtors are as follows:

- Verity Health System of California, Inc.
- O'Connor Hospital
- Saint Louise Regional Hospital
- St. Francis Medical Center
- St. Vincent Medical Center
- Seton Medical Center (which includes Seton Medical Center Coastside campus)
- Verity Business Services
- O'Connor Hospital Foundation
- Saint Louise Regional Hospital Foundation
- St. Francis Medical Center of Lynwood Foundation
- St. Vincent Medical Center Foundation
- Seton Medical Center Foundation
- Verity Medical Foundation
- Verity Holdings, LLC
- De Paul Ventures, LLC
- De Paul Ventures - San Jose Dialysis, LLC
- St. Vincent Dialysis Center

The Debtors employed approximately 7,385 employees (the "Employees") in the aggregate. Almost three-quarters of the Debtors' Employees, approximately 5,500 people in total, were represented by one of the following unions (the "Unions") pursuant to collective bargaining agreements between the Unions and the respective Debtors: California Nurses Association ("CNA"); Service Employees International Union ("SEIU"); California Licensed Vocational Nurses' Association ("CLVNA"); United Nurses Associations of California/Union of Health Care

Professionals ("UNAC"); the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"); International Operating Engineers, Stationary Engineers, Local No. 39 ("Local 39"); and the International Federation of Professional and Technical Engineers, Local 20 ("Local 20").

B. The Non-Debtor Affiliates

Certain of the Debtors have interests in the entities listed below that did not file voluntary petitions for relief (collectively, the "Non-Debtor Affiliates"). The Non-Debtor Affiliates are as follows:

- De Paul Ventures - San Jose ASC, LLC
- Marillac Insurance Company, Ltd.
- O'Connor Health Center I
- Sports Medicine Management, Inc.
- St. Vincent de Paul Ethics Corporation
- VHoldings MOB, LLC
- Robert F. Kennedy Medical Center
- Robert F. Kennedy Medical Center Foundation

Further information concerning each of the Non-Debtor Affiliate's operations are discussed in the First-Day Declaration. The Non-Debtor Affiliates do not have material assets or value except for Marillac Insurance Company, Ltd. ("Marillac") and O'Connor Health Center I ("OCH1").

Marillac, a wholly-owned subsidiary of VHS, provides insurance coverage to the Debtors. Marillac was incorporated in the Cayman Islands on December 9, 2003, and holds a Class B(i) Insurer's License pursuant to the Cayman Islands Insurance Law, 2010. This class of licensure applies to insurers writing at least 95% of net premiums with their related business (in this case VHS). Marillac was granted a Class B(i) license effective April 2, 2015.

OCH1 is a California limited partnership, formed in January 1996. OCH Forest 1, LP is the general partner in OCH1 and OCH is a limited partner. OCH1 owns certain real property at 455 O'Connor Drive, San Jose, California, which is leased by OCH.

C. Corporate Structure

The following graphic depicts the Debtors' prepetition organizational structure:

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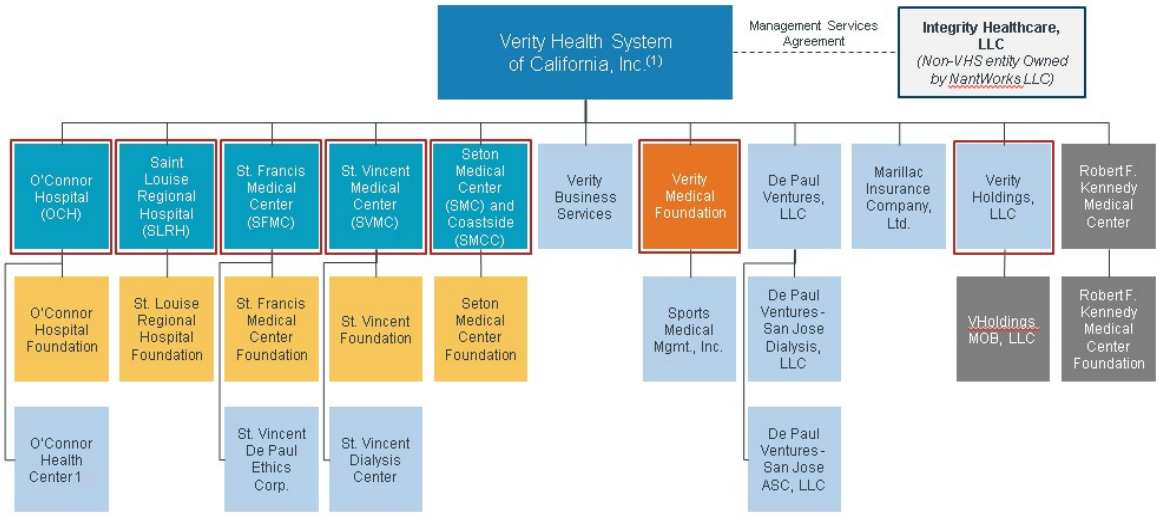

The Debtors' senior management is as follows:

Name	Position
Chief Executive Officer	Richard Adcock
Chief Financial Officer	Anita Chou
Chief Operating Officer	Anthony Armada
Chief Medical Officer	Tirso del Junco, Jr. M.D.

VHS is governed by the following seven-member board of directors:

Name	Position
Dr. Ernest Agatstein	Director
James Barber	Director
Terry Belmont	Secretary
Jack Krouskup	Chairman
Charles B. Patton	Director
Christobel Selecky	Director
Andrew Pines	Vice Chair

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III.

EVENTS LEADING TO THE COMMENCEMENT OF THESE CHAPTER 11 CASES

A. Overview of the Debtors' Prepetition Business Operations

The Daughters of Charity of St. Vincent de Paul, Province of the West, (the "Daughters of Charity") originally owned and operated the Hospitals and VMF. The Daughters of Charity began their healthcare mission in California in 1858 with the opening of Los Angeles Infirmary, now known as St. Vincent Medical Center. The Daughters of Charity expanded its hospitals to San Jose in 1889 and San Francisco in 1893. The Daughters of Charity ministered to the poor and sick for more than 150 years.

In March 1995, the Daughters of Charity merged with Catholic Healthcare West ("CHW"). In June 2001, the Daughters of Charity Health System was formed. In October 2001, the Daughters of Charity withdrew from CHW. In 2002, the Daughters of Charity Health System commenced operations and was the sole corporate member of the Hospitals, which at that time were California nonprofit religious corporations.

Between 1995 and 2015, the Daughters of Charity and Daughters of Charity Health System struggled to find a solution to continuing operating losses, either through a sale of some or all of the hospitals or a merger with a more financially-sound partner. All these efforts failed, and the health system's losses continued to mount. In 2005, Daughters of Charity Health System issued $364 million in bonds to refinance existing debt and to fund future capital expenditures. Three years later, in 2008, they issued another $143 million in bonds to refinance existing debt (the "2008 Bonds").

Between 2012 and 2014, Daughters of Charity Health System participated in an affiliation with Ascension Health Alliance ("Ascension") in an effort to create greater operating efficiencies. Previously, Ascension was the largest Catholic health system in the world and the largest non-profit health system in the United States with facilities in 23 states and the District of Columbia. The affiliation between Daughters of Charity Health System and Ascension failed.

Despite continuous efforts to improve operations, operating losses continued to plague the health system due to, among other things, mounting labor costs, low reimbursement rates and the

ever-changing healthcare landscape. In 2013, Daughters of Charity Health System actively solicited offers for OCH, SLRH, and Seton. In 2013, to avoid failing debt covenants, the Daughters of Charity Foundation, an organization separate and distinct from the Daughters of Charity Health System, donated $130 million to the health system to allow it to retire the 2008 Bonds in the total amount of $143.7 million.

In early 2014, Daughters of Charity Health System announced that they were beginning a process to evaluate strategic alternatives for the health system. Throughout 2014, Daughters of Charity Health System explored offers to sell the health system and, in October of 2014, they entered into a purchase agreement with Prime Healthcare Services and Prime Healthcare Foundation (collectively, "Prime"). However, to keep the Hospitals open during the sale process, Daughters of Charity Health System borrowed another $125 million to mitigate immediate cash needs until the sale could be consummated. Notably, the goal of the transaction was to maintain the status quo. The guiding principles for the sale included protecting existing pensions, repaying all bond debt, continuation of all collective bargaining agreements, maintenance of existing contracts for patient services, and obtaining promises for substantial capital expenditures. In early 2015, the Attorney General of California (the "Attorney General") consented to the sale to Prime, subject to certain conditions. Prime terminated the transaction in light of the "onerous conditions" on the continued operation of the Hospitals imposed by the Attorney General.

In 2015, Daughters of Charity Health System again marketed their health system for sale, and, again, focused on offers that maintained the health system as a whole and assumed all the obligations. In July 2015, the Daughters of Charity Health System board of directors selected BlueMountain Capital Management LLC ("BlueMountain"), a private investment firm, to recapitalize operations and transition leadership of the health system to the new Verity Health System (the "BlueMountain Transaction").

In connection with the BlueMountain Transaction, BlueMountain agreed to make a capital infusion of $100 million to the Verity Health System, arrange loans for another $160 million to the Verity Health System, and manage operations of the Verity Health System, with an option to buy Verity Health System at a future time. In addition, the parties entered into a System Restructuring

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and Support Agreement (the "Restructuring Agreement") that, among other things, changed the Daughters of Charity Health System name to Verity Health System. The Restructuring Agreement also provided that VHS and the Hospitals would be converted from religious corporations to nonprofit public benefit corporations.

The Daughters of Charity Health System requested the Attorney General's consent to enter into the Restructuring Agreement and the BlueMountain Transaction. The Attorney General retained MDS Consulting, an expert consulting firm, to prepare healthcare impact reports for the Attorney General concerning the proposed transactions. According to the expert's healthcare impact reports, Daughters of Charity Health System outlined the following reasons why the BlueMountain Transaction was either necessary or desirable:

- The current structure and sponsorship of Daughters of Charity Health System was no longer possible as a result of cash flow projections and dire financial conditions.
- In July and August of 2014, Daughters of Charity Health System obtained a short-term financing bridge loan in the amount of $125 million to mitigate the immediate cash needs for an estimated period of time long enough to allow for the transaction to close. Repayment of the funds was due on December 15, 2015, at which time if the full amount was not repaid, Daughters of Charity Health System would be at risk of defaulting on both their outstanding 2014 and 2005 revenue bonds.
- Without bankruptcy protection or additional financial support, Daughters of Charity Health System could not continue hospital operations if there is a default.

On December 3, 2015, the Attorney General approved the BlueMountain Transaction, subject to certain conditions (the "Conditions"). The Conditions were imposed for periods ranging from 5 to 15 years and generally included: (1) limits on transfers of control; (2) maintenance of specific health services and specific bed counts; (3) required participation in Medicare and Medi-Cal programs; (4) required levels of community benefit programs; (5) required levels of charity care; (6) maintenance of certain county payor contracts; (7) requirements for local governing boards; (8) requirements for medical staff compliance; and (9) an annual attestation of compliance with the Conditions.

In 2015, BlueMountain formed Integrity Healthcare, LLC ("Integrity") to carry out management services for Verity Health System. The Integrity management services were provided pursuant to 15-year term Health System Management Agreement by and between Integrity and

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VHS (the "Management Agreement"). Integrity received a monthly management fee pursuant to the Management Agreement, which was calculated based on a specified percentage of trailing 12-month operating revenues for VHS and provided that VHS could defer a portion of the fee payments with such deferments subject to interest accruing at 2.82% per annum. Integrity was wholly owned by BlueMountain through June 30, 2017.

Verity Health System did not prosper despite BlueMountain's infusion of cash and retention of various consultants and experts to assist in improving cash flow and operations.

In July 2017, NantWorks, LLC ("Nantworks") acquired a controlling stake in Integrity. NantWorks brought in new officers and NantWorks loaned another $148 million to the Debtors. The NantWorks transaction did not result in significant changes to the terms of the Restructuring Agreement or the Conditions.

Once again, Verity Health System did not achieve expected success despite the infusion of capital and new management. Losses continued at approximately $175 million annually on a cash flow basis.

VHS's great efforts to revitalize its Hospitals and improvements in performance and cash flow proved insufficient to overcome the legacy burden of more than a billion dollars of bond debt and unfunded pension liabilities, an inability to renegotiate collective bargaining agreements or payor contracts, the continuing need for significant capital expenditures for seismic obligations and aging infrastructure, and the general headwinds facing the hospital industry. It became apparent that the problems facing the Verity Health System were too large to solve without a formal court supervised restructuring.

B. The Debtors' Prepetition Capital Structure[3]

VHS, Verity Business Services ("VBS"), and the Hospitals are jointly obligated parties on approximately $461.4 million of outstanding secured debt consisting of: (a) $259.4 million

[3] For additional information concerning the Debtors' prepetition capital structure, the Debtors refer to the *Declaration of Anita Chou, Chief Financial Officer, in Support of Motion Of Debtors For Interim And Final Orders (A) Authorizing The Debtors To Obtain Post Petition Financing (B) Authorizing The Debtors To Use Cash Collateral And (C) Granting Adequate*

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outstanding tax exempt revenue bonds, the 2005 Series A, G and H Revenue Bonds, issued by the California Statewide Communities Development Authority ("CSCDA"), which loaned the bond proceeds to VHS to provide funds for capital improvements and to refinance certain tax exempt bonds previously issued in 2001 by the Daughters of Charity Health System; and (b) $202 million outstanding tax exempt revenue notes, the 2015 Revenue Notes and the 2017 Revenue Notes issued by the California Public Finance Authority (the "CPFA"), which loaned the proceeds to VHS to provide working capital. Wells Fargo Bank, National Association, is the 2005 Revenue Bonds Trustee, and U.S. Bank, National Association, is the 2015 Notes Trustee and 2017 Notes Trustee.

Except for the taxable Series 2015C of the 2015 Revenue Notes, the 2005 Series A, G and H Revenue Bonds, 2015 Revenue Notes, and 2017 Revenue Notes are all tax exempt, meaning interest on the bonds is not taxable to the holders, so long as the obligors maintains their qualified tax exempt status and the proceeds of the bonds are used for the tax exempt purposes for which they were originally intended. The Series 2005 A Bonds are comprised of four term bonds maturing on July 1, 2024, 2030 and 2035, bearing interest at 5.75% (Series 2005A-2024), (Series 2005A-2030), (Series 2005A-2035) and one maturing July 1, 2039 bearing interest at 5.50% (Series 2005A-2039). The Series 2005G term bond matures on July 1, 2022 and bears interest at 5.50%. The Series 2005H- term bond matures on July 1, 2025 and bears interest at 5.75%. The 2015 Revenue Notes matured on June 10, 2019 (Series 2015A, Series 2015B, Series 2015C and Series 2015D) and the 2017 Revenue Notes mature on December 10, 2020 (Series 2017A, 2017B). Series 2015A and B and Series 2017 and 2017B bear interest at 7.25%, while the Series 2015D carries an 8.75% interest rate and the taxable Series 2015C accrues interest at 9.5%.

Holdings, a direct subsidiary of its sole member VHS, was created in 2016 to hold and finance the Debtors' interests in six medical office buildings whose tenants are primarily physicians and other practicing medical groups and certain of the Hospitals. Holdings is the borrower of approximately $66 million through two series of non-recourse financing secured by separate deeds of trust and revenue and accounts pledges, including lease rents on each medical building, pursuant

Protection To Prepetition Secured Creditors Pursuant To 11 U.S.C. §§ 105, 363, 364, 1107 And 1108 [Docket No. 32].

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to the MOB I Loan Agreement and MOB II Loan Agreement (collectively, the "MOB Financings"). The MOB Financings bear interest at a variable interest rate equal to One Month LIBOR, plus a spread of 5.0% with a floor of 6.23% for the first series and a floor of 6.92% for the second series. The secured lenders for the MOB Financings are affiliates of NantWorks, which is an affiliate of Integrity.

During May 2017, the CSCDA issued $20 million of limited obligation tax exempt bonds, pursuant to the CaliforniaFIRST Clean Fund Program in five series all with the same maturity date of September 2, 2047 (the "Clean Fund Bonds") as the conduit issuer for the benefit and obligation of Verity. The purpose of the bond funding was to assist with clean energy construction efforts of the SMC and are secured by SMC's voluntary agreement to special tax assessments by Daly City. No other Debtor is liable for repayment of the Clean Fund Bonds. Wilmington Trust National Association ("WTNA") is the Trustee holding the construction funds, and a prefunded capitalized interest fund and is the collateral agent for collection of the special tax assessments for use in paying interest and principal on the Clean Fund Bonds. Interest on the Clean Fund Bonds accrues at 6.4%. The special assessment runs for a period which is the shorter of 30 years or the early full defeasement of the Clean Fund Bonds.

In September 2017, the CSCDA issued $20 million of limited obligation tax exempt bonds, pursuant to the CaliforniaFIRST Program for the purpose of assisting with clean energy and seismic improvement construction at SMC ("NR2 Petros Bonds"). The NR2 Petros Bonds also mature on September 2, 2047, and carry an interest rate of 6.45%. The NR2 Petros Bonds are also California tax exempt and are secured by a special Daly City tax assessment on SMC property. No other Debtor is liable for repayment of the NR2 Petros Bonds. The special assessment runs for a period which is the shorter of 30 years or the early full defeasement of the NR2 Petros Bonds. WTNA is the Trustee holding the seismic improvement funds, as well as a pre-funded interest payment fund.

NantCapital also provided $40 million of unsecured debt financing for Holdings as reflected in two $20 million unsecured notes (the "Nant Unsecured Notes"). The Nant Unsecured Notes are balloon notes with interest and principal payable at maturity in 2020 and carry annual compounded interest rates of 7.25%.

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C. The Debtors' Prepetition Unsecured Claims

The unsecured claims against the Debtors on the Petition Date include claims made by vendors of goods and services, cost report payables, pension obligations, management fees, incurred but not reported third party claims and other claims as discussed in Section VI of this Disclosure Statement below.

D. The Debtors' Retirement Related Benefit Plans

The Debtors maintain several retiree-related benefit plans that include pension benefits and healthcare benefits. With respect to pensions, there are two single employer defined benefits plans, two multi-employer defined benefit plans (collectively, the "Defined Benefits Pension Plans") and several defined contribution plans (collectively, the "Defined Contribution Pension Plans" and, referred to along with the Defined Benefits Plans as the "Pension Plans"). In addition, the Debtors maintain a retiree health benefit plan that provides a supplement for retirees who timely select into the program (the "Retiree Health Benefit"). At present, there are only approximately 12 retirees who utilize the Retiree Health Benefit.

The Defined Benefits Pension Plans originated with or otherwise arose out of defined benefits pension plans that were maintained by, or otherwise contributed into, by Daughters of Charity. In connection with the BlueMountain Transaction, VHS retained liabilities with respect to certain of these Defined Benefits Pension Plans, including a single employer non-ERISA compliant, non-PBGC-insured "Church Plan." At the time of the BlueMountain Transaction, the Church Plan was significantly underfunded. As a provision of the BlueMountain Transaction, VHS agreed to convert the Church Plan to an ERISA-compliant, PBGC-insurable defined benefit plan, which was called the Verity Health System Retirement Plan (the "VHS Plan"). Subsequently, in an effort to enhance its ability to meet contribution requirements, the Board of Directors of VHS converted the VHS Plan into Verity Plan A and, using approximately $7,966,440 from the corpus of Plan A, created Verity Plan B (collectively, the "Single-Employer Plans"). The creation of Plan B permitted the largest number of beneficiaries with the lowest account balances to be shifted into Plan B, thereby reducing insurance costs of Plan A. The Debtor entities that participate in the Single-Employer Plans include OCH, SLRH, SFMC, and SVMC. In addition, certain systems

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office employees participate in Plan A. The Single-Employer Plans are frozen as to all employees, other than with respect to Plan A for active CNA members. Since its creation and up to the Petition Date, Verity made all required contributions to Plan A. Based upon those contributions, Plan A became insured up to 40% of the maximum insurable level provided by PBGC. Since the Petition Date, and pursuant to Bankruptcy Court authorization, contributions have been made to Plan A with respect to active CNA members. Because Plan B was and remains fully funded, no contributions have been made to Plan B since its creation. The PBGC has informed the Debtors that it intends to terminate the Single-Employer Plans, which the Debtors' expect will be effective upon or before the closing of the SGM Sale.

In addition to the Church Plan, Verity inherited obligations with respect to two multiemployer defined benefit pension plans, referred to as the Retirement Plan for Hospital Employees ("RPHE") and the Stationary Engineers Local 39 Pension Plan ("Local 39 Plan" and ,collectively referred to with the RPHE as the "Multi-Employer Plans"). The Debtor entities that participate in the RPHE are Seton (defined herein to include both Seton Medical Center and Seton Medical Center Coastside), OCH, SLRH, and Caritas Business Services. The RPHE was frozen as to these facilities, other than with respect to CNA members at OCH, SLRH and Seton Medical Center. Benefits under the RPHE are generally based on years of service and employee compensation. Contributions to the RPHE are based on actuarially determined amounts established by the RPHE Board of Trustees to meet benefits to be paid to plan participants and satisfy IRS funding requirements. Similar to the Church Plan, the RPHE was significantly underfunded. After the BlueMountain transaction and up through July 31, 2018, the Debtors made all requisite contributions to the RPHE.

In addition to the Defined Benefits Pension Plans, VHS and VMF maintain several Defined Contribution Plans for employees, which include employer matching contributions and cover union represented employees. The Defined Contribution Plans include the Verity Health System Supplemental Retirement Plan (TSA), the Verity Health System Supplemental Retirement Plan (401(a)), the Verity Health System Retirement Plan Account (RPA), the Verity Medical Foundation 401(k) Plan, the Verity Medical Foundation Management Bargaining Unit Employees 401(k) Plan

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for represented employees and the Verity Health System Executive Long-Term Savings Plan s 457(b) (or "Rabbi Trust Plan") for nonrepresented employees. The Defined Contribution Plans are funded from employee and/or employer contributions generally on a payroll by payroll basis. In addition to the above active defined contribution plans, there are several small, frozen ancillary retirement plans. During the fiscal years ended June 30, 2017 and 2016, the employer's contribution expense for DC Plans was approximately $18.48 million and $21.75 million, respectively. The Defined Contribution Pension Plans are fully funded and contributions have continued throughout the Chapter 11 Cases.

E. Fiscal Crisis on the Petition Date

As described above, the fiscal crisis which faced the Debtors on the Petition Date was the consequence of multiple historical challenges. Below are a few of the most significant financial issues the Debtors faced when they filed the Chapter 11 Cases.

1. Payor Rates

The Debtors' payor contracts with health plans were 20-43% below market. The Conditions imposed by the Attorney General required that the Debtors maintain certain payor contracts, which severely limited the Debtors' negotiating power. These below market rates made it impossible for the Hospitals to generate sufficient cash flow to maintain liquidity.

2. Labor Rates

Payroll costs in the twelve months before the Petition Date increased by nearly $65 million. The increase was partially related to Union contracts, which, prepetition, increased the Debtors' labor costs by approximately 5% year-over-year.

3. Pension Plan Obligations

The Debtors incurred, and anticipated, significant expenses on account of Pension Plan and other postretirement benefit liabilities, many of which are related to underfunded legacy obligations dating back to the Daughters of Charity Health System.

For example, as of the Petition Date, the RPHE was frozen to ongoing benefit accruals, except with respect to CNA members at OCH, SLRH, and SMC. However, prepetition, VHS had recorded benefit expenses of $16.72 million and $20.46 million in cash contributions to the RPHE

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for fiscal years ended June 30, 2018 and 2017, respectively, and $12.36 million to the RPHE for the period from December 2015 through June 2016. Further, on the Petition Date, VHS was scheduled to make contributions to the RPHE totaling $13.61 million in fiscal year 2019. A significant amount of those scheduled contributions in fiscal year 2019—$8.54 million—represented make-up contributions for unfunded amounts that arose during the Daughters of Charity Health System time period.

Similarly, as of the Petition Date, Verity Plans A & B were frozen with respect to ongoing benefit accruals, except with respect to CNA members at SVMC participating in Verity Plan A. VHS contributed $45.40 million and $41.68 million to Verity Plan A & B for fiscal years ended June 30, 2018 and 2017, respectively, and $7.73 million to Verity Plan A for the period from December 2015 through June 2016. Further, on the Petition Date, VHS was scheduled to make contributions to Verity Plan A totaling $25.50 million in fiscal year 2019, of which $20.26 million represented make-up contributions for underfunded amounts that arose during the Daughters of Charity Health System time period.

4. IT Investment

VHS's information technology ("IT") system required investments of nearly $50 million over the coming year. The Debtors IT systems relied on outdated electronic health records and enterprise resource planning (i.e., human resources, supply chain management, inventory management, etc.). Further, significant IT asset upgrades were required to modernize the Hospitals and continue providing quality patient care services. For example, VHS needed to (i) immediately replace its outdated local area and wireless networking equipment with modern equipment to enable reliable access by all VHS system users (a $15 million estimated cost over a one-year implementation period), and (ii) replace VHS's obsolete clinical systems, including medical record systems and financial systems, to provide up-to-date patient records, improved clinical planning, care management, and better charge control (a $220 million estimated cost over a period of two years).

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5. Seismic and Energy Requirements

VHS faced required seismic and energy expenditures of over $150 million over the coming years. The forecasted expenses included building improvements and demolitions at SVMC, SMC, and OCH that must be completed by 2020, and another round of improvement obligations at SVMC, SMC, OCH, and SLRH required by 2030. These seismic improvement deadlines are mandated by the California Office of Statewide Health Planning and Development and the Attorney General pursuant to the Conditions imposed on the BlueMountain Transaction.

6. Insurance Obligations

As set forth in the First-Day Declaration, the Debtors maintain various insurance policies issued by several insurance carriers (collectively, the "Insurance Carriers"). Collectively, these policies provide for coverage for, among other things: storage tank liability, commercial property, workers' compensation and employers liability, commercial automobile, helipad liability & non-owned aircraft liability, sexual misconduct and molestation liability, D&O liability, general liability, and professional liability (collectively, the "Insurance Policies").[4]

Significant insurance is issued to the Debtors by its captive insurer Marillac. The policies issued by Marillac cover professional and general liability (both at the primary and excess level) and additional excess coverage as to automobile liability, heliport and non-owned aircraft liability, employer's liability and certain other general liability.

The Debtors maintain a workers' compensation insurance policy with Old Republic Insurance Company ("Old Republic") with a $500,000 deductible for each claim. Old Republic provides coverage under the policy up to $1 million for each claim. Marillac issued a Deductible Liability Protection Policy which provides coverage for the deductible obligations on the Debtors' workers' compensation policy issued by Old Republic. On average, the monthly invoice amounts for deductibles (including allocated loss adjustment expenses) incurred under the workers' compensation policy is between $400,000 and $650,000, which are timely paid by Marillac under the Deductible Liability Protection Policy.

[4] The Insurance Policies include six CA DHS Patient Trust Bonds, which will not come due for renewal until December 2019.

The Debtors also maintain self-insured retentions of $250,000 per claim under their D&O liability coverage, $350,000 per claim under their employment practices coverage, $50,000 per claim under their fiduciary liability coverage, $100,000 per claim under their crime coverage, and $50,000 per claim under their sexual misconduct and molestation liability coverage (the "Self-Insured Retentions" or "SIRs"). A SIR is a loss amount that the insured is obligated to pay before the insurer's coverage obligation is triggered.

The Debtors' Self-Insured Retentions are administered, so that the Debtors pay directly for the losses under each policy as they are incurred up to the amounts of the Self-Insured Retentions. Such SIRs due prepetition have been paid pursuant to the Insurance Motion (as defined below).

7. Medical Equipment

On the Petition Date, VHS required over $100 million in medical equipment expenditures over a period of several years. The Debtors delayed these investments because significant debt, pension, seismic and operating losses limited the Debtors' liquidity.

F. Working Capital Shortfalls

The Debtors, like other hospitals serving similar communities, rely on government support to help bridge the gap between what they get reimbursed by private insurance companies, Medicare and Medi-Cal and their cost of providing care. The Quality Assurance Fee program, established in 2010, provides funding for supplemental payments to California hospitals that serve Medi-Cal and uninsured patients. The program is successful, providing billions of dollars in supplemental payments to California hospitals. The Medicare and Medi-Cal programs also provide funding to hospitals that treat indigent patients through the Disproportionate Share Hospital ("DSH") programs, under which facilities are able to receive at least partial compensation. Under the Patient Protection and Affordable Care Act of 2010 (P.L. 111-148, as amended) (the "ACA"), Congress would have reduced federal DSH allotments beginning in 2014, to account for the decrease in uncompensated care anticipated under health insurance coverage expansion. However, several pieces of legislation enacted since 2010 have since delayed the ACA's Medicaid DSH reduction schedule. Unfortunately, the Quality Assurance Payments and DSH program payments are

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unreliable sources of cash flow as the Debtors regularly experienced payment reductions and delays.

The Debtors' reliance on Quality Assurance Payments led to working capital shortages due to delays in approval and lower than expected payments. For example, on the Petition Date:

- *14-Month Delay*: QAF V FFS program (service period 1/1/17 - 6/30/19) was not approved until December 2017, and the Debtors did not start receiving payments until the end of February 2018 (14-month delay);
- *29-Month Delay*: QAF V HMO program's first payment was not funded until May 2019 (a 29-month delay on receiving funds);
- *Receiving less than Expected*: Through all 10 QAF V FFS cycles, the Debtors received anywhere from 70% to 100% of expected payments.

G. The Attorney General Conditions

As set forth above, as part of approving the Restructuring Agreement, the Attorney General placed certain operational restrictions on VHS and each of the Hospitals, which include certain minimum annual spending for charity care, community benefits, and capital expenditures among other mandates. The Conditions had the cumulative effect of locking the Debtors into a failing business model, dictating minute details of business operations, and denying the Debtors the ability to repurpose facilities. For example, SMC could potentially better serve its community by operating as a much-needed long-term post-acute care facility, rather than as one of the many acute care hospitals in a saturated service area. The Conditions foreclose this option.

The Conditions also compelled the Debtors to expend millions of dollars to provide charity care even though the number of uninsured people in California steadily decreased since passage of the ACA. In October 2017, VHS was also required to make an additional contribution to the Retirement Plans of $7.62 million as a result of a shortfall in the fiscal year 2017 charity care requirement for certain hospitals.

The Conditions denied the Debtors the benefits of the marketplace. For example, as discussed above, the Conditions require the Debtors to enter into payor contracts with specific entities regardless of whether more economically advantageous contract terms are offered elsewhere. Because those payors were well aware of this obligation, VHS lost all bargaining power with those payors.

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The Debtors commenced these Chapter 11 Cases as a result of the issues discussed in this Section III with the objective of protecting the original legacy of the Daughters of Charity to the maximum extent possible. The Debtors pursued a strategy to retire debt incurred over the past 18 years so the Hospital facilities and work force can continue their critical operations under new ownership and leadership without the accumulated crisis of the past.

IV.

SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASES

Below is a discussion of the material pleadings and events to date during the Chapter 11 Cases.

A. Material First-Day Motions and Related Adversary Proceeding Filed on the Petition Date

1. Emergency Motion to Pay the Debtors' Prepetition Priority Wages

The Debtors filed an emergency motion [Docket No. 22] (the "Wage Motion") for authority to pay the Debtors' prepetition priority wages and related benefits in the ordinary course of business to avoid the disruption to the Debtors' business from failing to do so. The Bankruptcy Court granted the Wage Motion. *See* Docket No. 612.

2. Emergency Motion to Provide Adequate Assurance of Payment to the Debtors' Utilities

The Debtors filed an emergency motion [Docket No. 28] (the "Utilities Motion") for an order authorizing the Debtors to provide adequate assurance of future payment to certain utility companies pursuant to § 366(c). The Bankruptcy Court granted the Utilities Motion. *See* Docket No. 133.

3. Emergency Motion for Joint Administration of these Chapter 11 Bankruptcy Cases

The Debtors filed an emergency motion [Docket Nos. 3-5] (the "Joint Administration Motion") for authority to jointly administer all of the Debtors' Chapter 11 Cases. The Bankruptcy Court granted the Joint Administration Motion. *See* Docket No. 17.

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4. Emergency Motion for Authority to Honor Prepetition Claims of Critical Vendors

The Debtors filed an emergency motion[Docket No. 29] (the "Critical Vendor Motion") for authority to honor the prepetition obligations to certain critical vendors. The Bankruptcy Court granted the Critical Vendor Motion. *See* Docket Nos. 134, 436].

5. Emergency Motion to Maintain Cash Management Systems

The Debtors filed an emergency motion [Docket No. 23] (the "Cash Management Motion") for authority to maintain their cash management systems, which was imperative to avoid significant disruption to the Debtors' business operations. The U.S. Trustee provided the Debtors with informal comments to the Cash Management Motion. *See* Docket No. 70 at 1. Based on the comments, the Debtors supplemented the Cash Management Motion [Docket No. 70] and agreed to a mutually acceptable postpetition cash management system with the U.S. Trustee. Accordingly, the Bankruptcy Court granted the Cash Management Motion on an interim basis as modified and supplemented. *See* Docket. No. 76.

On September 27, 2018, the Committee filed a response [Docket No. 313] to the Cash Management Motion. On October 1, 2018, the Debtors filed their reply [Docket No. 357]. The Bankruptcy Court overruled the objections raised in the Committee's response and entered an order granting the Cash Management Motion on a final basis. *See* Docket Nos. 384, 728.

6. Emergency Motion to Maintain Insurance Programs and Related Adversary Proceeding

The Debtors filed an emergency motion [Docket No. 24] (the "Insurance Motion") for authority to maintain insurance programs, pay premiums and other obligations in the ordinary course, and prevent insurance companies from enforcing *ipso facto* provisions or otherwise terminating insurance policies without first seeking relief from the automatic stay. The Bankruptcy Court granted the Insurance Motion. *See* Docket No. 131.

The Debtors filed an adversary proceeding against Old Republic requesting injunctive relief to prevent Old Republic from drawing down the Letter of Credit due to the bankruptcy filing. *See* Adv. Pro. No. 2-18-ap-01277-ER, Docket No. 1. That same day, the Bankruptcy Court entered an

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order issuing a temporary restraining order, enjoining Old Republic from drawing down the Letter of Credit in full based upon the Debtors' insolvency or bankruptcy filing. *See id.*, Docket No. 4. On September 11, 2018, the Debtors and Old Republic entered into a stipulation whereby Old Republic agreed not to draw on the Letter of Credit based upon the Debtors' insolvency or bankruptcy filing which was approved in an order of the Bankruptcy Court. *See id.*, Docket Nos. 24, 25. On November 19, 2018, the Debtors voluntarily dismissed the adversary proceeding against Old Republic. *See id.*, Docket No. 27.

7. DIP Financing/Cash Collateral

On August 31, 2018, the Debtors filed the *Emergency Motion Of Debtors For Interim And Final Orders (A) Authorizing The Debtors To Obtain Post Petition Financing (B)* Authorizing *The Debtors To Use Cash Collateral And (C) Granting Adequate Protection To Prepetition Secured Creditors Pursuant To 11 U.S.C. §§ 105, 363, 364, 1107 and 1108* [Docket No. 31] (the "DIP Motion"). Under the DIP Motion, the Debtors sought debtor-in-possession financing (the "DIP Financing") from Ally Bank, as agent and lender under the DIP Credit Agreement (the "DIP Lender"), and permission to use the cash-collateral. On October 4, 2018, the Court entered an order (the "DIP Order") granting the DIP Motion [Docket No. 409], which authorized, among other things, DIP Financing up to $185 million and adequate protection to the Debtors' prepetition secured creditors.

On December 27, 2018, the Committee appealed the DIP Order to the United States District Court for the Central District of California (the "DIP Appeal"). *See* Case No. 2:18-cv-10675-RGK, Docket No. 1 (C.D. Cal. Dec. 27, 2018). The Committee did not seek a stay pending appeal of the DIP Order. On April 8, 2019, the District Court granted motions to intervene filed by UMB Bank, N.A. ("UMB Bank"), Wells Fargo Bank, National Association ("Wells Fargo"), and U.S. Bank, National Association ("U.S. Bank"). *See id.*, Docket Nos. 29, 30.

On March 14, 2019, the Committee filed its opening brief. *See id.*, Docket No. 22. On April 15, 2019, VHS filed a reply brief, and U.S. Bank, UMB Bank, and Wells Fargo filed a separate reply brief. *See id.*, Docket Nos. 31, 32. The Committee filed its reply brief on April 29, 2019, and the Court took the matter under submission. *See id.*, Docket Nos., 34, 36. On June 7,

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2019, the parties requested expedited disposition of the DIP Appeal, which the District Court granted by order entered June 11, 2019. *See id.*, Docket Nos. 38, 39.

On August 2, 2019, the District Court issued an order dismissing the DIP Appeal as moot. *See id.*, Docket No. 40. On August 26, 2019, the Committee appealed the District Court order to the Ninth Circuit [Docket No. 2961].

Approximately $37.3 million of adequate protection payments have been made as follows:

Verity Health System Post-Petition Adequate Protection		$ in 000's Amount
Total Adequate Protection Payments	**$**	**(37,304)**
Adequate Protection Debt Service	**$**	**(32,437)**
Series 2017	**$**	**(2,791)**
Series 2017A		*(1,396)*
Series 2017B		*(1,396)*
Series 2015	**$**	**(11,481)**
Series 2015A		*(3,988)*
Series 2015B		*(2,991)*
Series 2015C		*(871)*
Series 2015D		*(3,632)*
Series 2005	**$**	**(13,493)**
Series 2005A		*(12,626)*
Series 2005G		*(445)*
Series 2005H		*(422)*
MOB Notes	**$**	**(4,671)**
Series 2018		*(1,411)*
Series 2017		*(3,260)*
Adequate Protection Professional Fees	**$**	**(4,867)**
Series 2017		*(721)*
Series 2015		*(905)*
Series 2005		*(2,070)*
Master Trustee		*(1,131)*
MOB Notes		*(40)*

These payments will be credited against the applicable Claims as provided in the Plan.

The DIP facility is secured by substantially all of the Debtors' assets and also provides for superpriority administrative priority status for all obligations under the facility. The Debtors have a debtor in possession financing facility with up to $185 million of availability from the DIP Lender subject to a borrowing base which was approved on a final basis. [Docket No. 409]. As of August 23, 2019, the outstanding balance of the DIP facility was approximately $67 million.

Pursuant to the DIP Credit Agreement, the DIP Financing is due to expire and mature in accordance with its terms on September 7, 2019. On August 28, 2019, the Debtors filed a motion

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[Docket Nos. 2962, 2968] (the "Cash Collateral Motion") for use of cash collateral and payoff of outstanding DIP Financing amounts. The Bankruptcy Court set the Cash Collateral Motion for hearing on September 6, 2019 at 10:00 a.m.

B. Motion to Implement Key Employee Incentive Plan and Key Employee Retention Plan

On October 23, 2018, the Debtors filed a motion [Docket No. 631] (the "KEIP/KERP Motion") to implement a key employee incentive plan [Docket No. 631-1] (the "KEIP") and a key employee retention plan [Docket No. 631-2] (the "KERP"). The KEIP and KERP are designed to incentivize performance and ensure that the Debtors' key employees remain employed by the Debtors during the Chapter 11 Cases until the Debtors' Hospitals are fully liquidated. On November 28, 2018, the Court granted the KEIP/KERP Motion. *See* Docket No. 893.

The KEIP and KERP participants are only entitled to payments if the Debtors meet certain milestones to ensure that the payments serve the dual purposes of retaining critical employees and appropriately incentivize meeting case goals and objectives. The triggers for payments under the KEIP are tied to the timing and value received from the sales of the Hospitals and performance under the budget set forth in the DIP Credit Agreement. The triggers for the KERP are certain milestones where the applicable employee remains employed. The applicable KEIP participants were paid a 15% salary bonus for meeting the budget goals in the DIP Credit Agreement. The OCH and SLRH KEIP participants were paid an additional 15% bonus because the sale of OCH and SLRH closed before March 31, 2019.

The VHS KEIP participants may receive bonuses tied to the percentage of their salaries based on ranges of sale proceeds of the Debtors' assets, with milestones of $300 million, $500 million, $700 million, and $950 million. Similarly, the Seton, SFMC, and SVMC KEIP participants may earn up to an additional 15% bonus because the sale of those facilities.

C. Motion to Reject Integrity Management Agreement

On September 21, 2018, the Debtors filed a motion [Docket No. 254] to reject the Management Agreement with Integrity. As of July 27, 2018, shortly before the Petition Date, the Debtors estimated that Integrity management fees from fiscal years 2016 through 2019 would total nearly $157 million. The Debtors determined that they could achieve significant cost-savings—

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approximately $20 million annually—by employing directly the CEO, COO, CFO, and CMO and rejecting the Management Agreement. Pursuant to the Conditions, and following a formal request by the Debtors, the Attorney General approved termination of the Management Agreement. *See* Docket No. 627. On November 8, 2018, the Bankruptcy Court entered an order [Docket No. 794] granting the Debtors' motion to reject the Management Agreement.

D. Estate Professionals, the Committee, and the Patient Care Ombudsman

On October 30, 2018, the Bankruptcy Court entered orders approving the employment of the following professionals to the Debtors: (i) Dentons US LLP, as lead counsel [Docket No. 712]; and (ii) Nelson Hardiman, LLP, as special healthcare regulatory counsel [Docket No. 713]. On November 5, 2018, the Bankruptcy Court entered an order [Docket No. 767] approving the employment of Cain Brothers, a Division of Keybank Capital Markets, Inc. ("Cain"), as investment banker. On November 7, 2018, the Bankruptcy Court entered an order [Docket No. 785] approving the employment of Berkeley Research Group, LLC, as financial advisor to the Debtors. On November 14, 2018, the Bankruptcy Court entered an order [Docket No. 818] approving the employment of Pachulski Stang Ziehl & Jones LLP, as special conflicts counsel to the Debtors. On August 7, 2019, the Bankruptcy Court entered an order [Docket No. 2862] approving the employment of Jeffer Mangles Butler & Mitchell LLP, as special labor counsel to the Debtors.

Additionally, on October 1, 2018, the Debtors filed a motion [Docket No. 364] to employ various ordinary course professionals. On October 29, 2018, the Bankruptcy Court entered an order [Docket No 693] granting the motion. Since the Petition Date, the Debtors have employed, pursuant to various filings, approximately 35 ordinary course professionals that provide an array of important services to the Debtors in the ordinary course of business, including legal, accounting, and consulting services.

On September 17, 2018, the U.S. Trustee appointed [Docket No. 197] an Official Committee of Unsecured Creditors (the "Committee") to represent the interests of general unsecured creditors. The Committee is comprised of nine members consisting of the following: (i) Aetna Life Insurance Company, (ii) Allscripts Healthcare, LLC, (iii) California Nurses Association, (iv) Iris Lara, (v) Medline Industries, Inc., (vi) Pension Benefit Guaranty Corporation ("PBGC"),

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(vii) SEIU United Healthcare Workers West, (viii) Sodexo Operations, LLC and (ix) St. Vincent IPA Medical Corporation. On November 6, 2018, the Bankruptcy Court entered an order [Docket No. 778] approving the employment of Milbank, Tweed, Hadley & McCloy LLP, as lead counsel to the Committee. On November 14, 2018, the Bankruptcy Court entered an order [Docket No. 822] approving the employment of FTI Consulting, Inc., as financial advisor to the Committee. On March 5, 2019, the Bankruptcy Court entered an order [Docket No. 1703] approving the employment of Arent Fox LLP, as special healthcare counsel to the Committee.

The U.S. Trustee appointed Dr. Jacob Nathan Rubin, MD, FACC, (the "Patient Care Ombudsman") to serve as the patient care ombudsman in these Chapter 11 Cases, pursuant to § 333(a), in accordance with the order [Docket No. 430] entered by the Bankruptcy Court on October 9, 2018. On November 2, 2018, the Bankruptcy Court entered orders approving the employment of the following professionals to the Patient Care Ombudsman: Levene, Neale, Bender, Yoo & Brill LLP, as bankruptcy counsel [Docket No. 751]; and Dr. Tim Stacy DNP, ACNP-BC, as consultant [Docket No. 753].

E. Administrative Matters, Reporting and Disclosures

The Debtors were required to address the various administrative matters attendant to the commencement of these bankruptcy cases, which required an extensive amount of work by the Debtors' employees and their professionals. These matters included the preparation of the *Schedules of Assets and Liabilities* and *Statements of Financial Affairs* for each of the Debtors' seventeen Chapter 11 Cases (*see, e.g.*, Docket No. 514), and preparation of the materials required by the U.S. Trustee, including, without limitation, the 7-Day Package.

The Debtors have made every effort to comply with their duties under §§ 521, 1106 and 1107 and all applicable U.S. Trustee guidelines, including the filing of the Debtors' monthly operating reports with the U.S. Trustee. *See* Docket Nos. 771, 945, 1172, 1174, 1453, 1670, 2008, 2287, 2478, 2653, 2825. The Debtors also attended their initial interview with the U.S. Trustee and the meeting of creditors required under § 341(a).

F. The SCC Sale

On October 1, 2018, the Debtors filed a motion [Docket No. 365] (the "SCC Sale Motion")

requesting entry of an order (i) authorizing the proposed sale (the "SCC Sale") of OCH and SLRH to the County of Santa Clara, a political subdivision of California ("SCC"), (ii) approving the form of the Asset Purchase Agreement between SCC and certain Debtors (the "SCC APA"), (iii) approving certain procedures governing the SCC Sale process (the "SCC Bid Procedures"), and (iv) approving certain procedures governing assumption and rejection of Executory Agreements in connection with the SCC Sale.

On October 31, 2018, the Bankruptcy Court entered an order [Docket No. 724] approving the SCC Bid Procedures. The order provided that all objections to the proposed SCC Bid Procedures were overruled, remaining objections concerning the proposed SCC Sale were premature, and that the Attorney General's request to continue the hearing on the SCC Bid Procedures was denied. *See* Docket No. 724 at 4-5.

On November 12, 2018, the Debtors filed a notice [Docket No. 810] to counterparties of Executory Agreements that may be assumed and assigned in connection with the SCC Sale. The Debtors filed a supplemental notice [Docket No. 998] on December 6, 2018 and an amended notice [Docket No. 1110] on December 19, 2018. Certain counterparties to executory agreements filed objections (collectively, the "SCC Cure Objections") to the notices concerning assumption and assignment. *See* Docket Nos. 882, 889, 904-05, 913-14, 919, 920-21, 923, 928-29, 931, 946, 970, 986, 1016, 1018, 1043, 1046, 1057-59, 1062, 1068-69, 1070-71, 1080, 1085, 1088-89, 1091-96, 1120-21.

On December 7, 2018, the Debtors filed a notice [Doc. 1005] that the Debtors did not receive any bids pursuant to the SCC Bid Procedures, and, thus, the Debtors would not conduct an auction.

On December 19, 2018, the Bankruptcy Court held a hearing to approve the SCC Sale pursuant to the SCC Sale Motion. At the hearing, the Bankruptcy Court considered the SCC Cure Objections as well as certain objections (collectively, the "SCC Sale Objections") to the SCC Sale as well as any withdrawals thereof. *See* Docket Nos. 437, 447, 562, 613, 463, 599, 605, 608, 619, 450, 458, 460, 465, 597, 439, 460, 452, 561, 444, 561, 592, 500, 906, 1057-62, 1067-71. The Attorney General was among the parties that filed as SCC Sale Objection (the "Attorney General

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SCC Objection"). As set forth in further detail, below, the Bankruptcy Court overruled the SCC Sale Objections.

On December 21, 2018, the Bankruptcy Court entered an order [Docket No. 1125] notifying the parties of the Bankruptcy Court's intent to authorize the Debtors to sell OCH and SLRH free and clear of the Conditions and requesting briefing. SCC [Docket No. 1136], the Committee [Docket No. 1137], the Debtors [Docket No. 1139], and the Attorney General [Docket No. 1140] filed responses to the Bankruptcy Court's order.

On December 26, 2018, the Bankruptcy Court entered a memorandum of decision [Docket No. 1146] overruling the Attorney General SCC Objection. On December 27, 2018, the Bankruptcy Court entered an order [Docket No. 1153] granting the SCC Sale Motion and approving the SCC Sale (the "SCC Sale Order").

On January 7, 2019, the Attorney General appealed of the Sale Order and the memorandum decision [Docket No. 1146] overruling the Attorney General SCC Sale Objection to the United States District Court for the Central District of California (the "Attorney General Appeal"). *See* Case No. 2:19-cv-00133-DMG, Docket No. 1 (C.D. Cal. Jan. 7, 2019). On January 9, 2019, the Attorney General filed a motion [Docket No. 1219] for stay pending appeal in the Bankruptcy Court and requested that the Bankruptcy Court hold a hearing on shortened notice [Docket No. 1220]. The Bankruptcy Court denied the request for shortened notice [Docket No. 1226] and set the hearing on the motion for January 30, 2019. The Debtors [Docket No. 1302] and the Committee [Docket Nos. 1303, 1318] filed objections to the motion, and SCC joined in the Debtors' objection [Docket No. 1334]. The Attorney General filed its reply brief [Docket No. 1365] on January 25, 2019. At the hearing on January 30, 2019, the Court denied the motion for stay pending appeal, and entered its order [Docket No. 1464] memorializing the decision on February 5, 2019.

On February 1, 2019, the Attorney General filed a motion in District Court to stay the effectiveness of the Sale Order pending the appeal. *See* Case No. 2:19-cv-00133-DMG, Docket No. 6 (C.D. Cal. Feb. 1, 2019). On February 22, 2019, the District Court entered an order denying the motion for stay pending appeal. *See id.*, Docket No. 32. On March 20, 2019, the parties filed a stipulation to dismiss the appeal, which was approved by order entered April 3, 2019. *See id.*,

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Docket Nos. 40, 41.

On January 2, 2019, the Debtors filed motions under § 1113 to reject, modify, and terminate certain collective bargaining agreements between either OCH or SLRH and Local 20, CNA, CLVNA, and SEIU effective upon the closing of the SCC Sale. *See* Docket Nos. 1181, 1182, 1191, 1192. CNA and SEIU filed objections on January 16, 2019 [Docket Nos. 1269, 1271] and the Debtors filed an omnibus reply brief [Docket No. 1331] on January 23, 2019. As a result of negotiations, two Unions (Local 20 and CLVNA) reached consensual resolutions with the Debtors, and agreed not to oppose the motions subject to certain clarifications of the requested relief. On February 19, 2019, the Bankruptcy Court entered orders granting the rejection motions. *See* Docket Nos. 1575, 1576, 1577, 1578

The SCC Sale closed on February 28, 2019. After payment of certain cure costs, closing costs and other items, the net remaining proceeds were approximately $184.38 million, which are held in four sale proceeds account. An additional $23.35 million is held in escrow (the "Post-Closing Escrow") by First American Title Insurance Company, the escrow agent. The Post-Closing Escrow was established pursuant to the terms of the SCC APA, as security for the Debtors' post-closing obligations and expires in February 2020. In accordance with the SCC APA, the Debtors and SCC entered into a transition services agreement.

G. Motions Related to Verity Medical Foundation

The Debtors have taken certain steps to wind-down the Debtor Verity Medical Foundation ("VMF"). For example, VMF entered into settlements and asset purchase agreements with Union Square Hearing. Inc. [Docket Nos. 2439, 2693], San Jose Medical Group and Silicon Valley Medical Development, LLC [Docket Nos. 1636, 1919], Oncology Technology Associates, LLC [Docket Nos. 1635, 1915], and All Care Medical Group, Inc. [Docket Nos. 1180, 1368]. The Debtors also rejected a professional services agreement with All Care Medical Group, Inc. [Docket Nos. 576, 1622] and filed notices of intent to abandon certain property of VMF which is of inconsequential value or benefit to the estates. *See* Docket Nos. 2590, 2648. The Debtors also obtained approval of an agreement with Centurion Service Group, Inc. ("Centurion") permitting

Centurion to sell, dispose of or move furniture and fixtures, medical equipment and office equipment, including three MRI machines. *See* Docket Nos. 2244, 2429.

H. The SGM Sale

On January 17, 2019, the Debtors filed a motion [Docket No. 1279] (the "SGM Sale Motion") requesting entry of an order (i) authorizing the proposed sale (the "SGM Sale") of SFMC, SVMC, and Seton to Strategic Global Management, Inc. ("SGM"), (ii) approving the form of the Asset Purchase Agreement between SGM and certain Debtors (the "SGM APA"), (iii) approving certain procedures governing the SGM Sale process (the "SGM Bid Procedures"), and (iv) approving certain procedures governing assumption and rejection of Executory Agreements in connection with the SGM Sale. The proposed sale was the product of more than six months of marketing efforts lead by the Debtor's investment banker, Cain, and involved more than 110 potential purchasers.

On February 19, 2019, the Bankruptcy Court entered an order [Docket No. 1572] approving the SGM Bid Procedures. The order provided that all objections to the proposed SGM Bid Procedures were overruled and the remaining objections concerning the proposed SGM Sale were premature. *See* Docket No. 724 at 4-5.

On March 5, 2019, the Debtors filed a notice [Docket No. 1704] to counterparties of Executory Agreements that may be assumed and assigned in connection with the SGM Sale. The Debtors filed a supplemental notice [Docket No. 1836] on March 18, 2019, a second supplemental notice [Docket No. 2065] on April 5, 2019, a notice [Docket No. 2131] of Executory Agreements designated for assumption and assignment on April 11, 2019, and a supplemental notice [Docket No. 2441] of designated contracts on May 24, 2019. Certain counterparties to executory agreements filed objections (collectively, the "SGM Cure Objections") to the notices concerning assumption and assignment. *See* Docket Nos. 1788, 1804, 1819, 1830, 1849, 1850, 1852, 1853, 1856-1858, 1863, 1866, 1869, 1870, 1873-1877, 1881, 1882, 1885, 1890-1892, 1904, 1926, 1930, 1933, 1940, 1946, 1948, 1949, 1953, 1954, 1965, 2058, 2066, 2108, 2113, 2144, 2146, 2148, 2150, 2157, 2161, 2162.

On April 4, 2019, the Debtors filed a notice [Doc. 2053] that no auction would be held and

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that the stalking horse bid submitted by SGM was the winning bid.

On April 17, 2019, the Bankruptcy Court held a hearing to approve the SGM Sale pursuant to the SGM Sale Motion. At the hearing, the Bankruptcy Court considered certain SGM Cure Objections, and certain other objections (the "SGM Sale Objections") and withdrawals thereof. *See* Docket Nos. 1397, 1352, 1358, 1364, 2130, 2145, 2147, 2155, 2156, 2164, 2168. As set forth in further detail, below, the Bankruptcy Court overruled the SGM Sale Objections and continued the hearings on consideration of the SGM Cure Objections. The Debtors are currently in the process of resolving the SGM Cure Objections.

On May 2, 2019, the Bankruptcy Court entered an order [Docket No. 2306] granting the SGM Sale Motion and approving the SGM Sale.

On May 7, 2019, VHS provided notice to, and requested written consent from, the Attorney General for the proposed SGM Sale. VHS requested that the Attorney General review its submission as both a request for approval of the proposed SGM Sale and a request to amend the existing Conditions. On August 16, 2019, the Attorney General publicly posted the Health Care Impact Statements (the "Impact Statements") for SFMC and SVMC, which were prepared by the Attorney General's expert, JD Healthcare, Inc. ("JD Healthcare"). *See* Docket No. 2946. On August 19, 2019, the Attorney General publicly posted the Impact Statement for Seton. *See id.* The Impact Statements contain certain conditions recommended by JD Healthcare to the Attorney General. *See id.* On August 23, 2019, at the request of the Attorney General, the Debtors submitted a response to the Impact Statements, which addresses whether any of the conditions proposed in the Impact Statements constitute "deal breakers" with respect to consummation of the SGM Sale. *See id.*

The closing of the SGM Sale is contingent on, among other things, the Attorney General's approval, with conditions that are substantially consistent with the conditions approved by SGM, as set forth on Schedule 8.6 to the SGM APA. Additionally, the Debtors continue to negotiate in good faith with the Unions concerning the modification of their collective bargaining agreements, as may be acceptable to SGM.

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The Debtors anticipate the SGM Sale to close in the last quarter of 2019 if the Attorney General imposes conditions that are substantially consistent with those set forth on Schedule 8.6 to the SGM APA. After payment of the estimated amount of certain cure costs, closing costs and other items, the net remaining proceeds from the SGM Sale are estimated to be approximately $532 million, as set forth below:

SGM Sale Transaction	
Cash Consideration	**$ in 000's**
Purchase Price	$ 610,000
Net QAF Reduction	(54,491)
Adj for Trauma earned prior to signing	(5,807)
Total cash consideration at closing	**$ 549,702**
Closing Costs	
Payment of accrued QAF liability (SMC)	(11,613)
Cain transaction fee	(6,100)
Total closing costs	$ (17,713)
SGM net cash consideration at closing	**$ 531,989**

These recovery forecasts are projections that are (i) based on a number of assumptions and estimates and (ii) subject to change.

The SGM APA approved by the Bankruptcy Court provides that the Debtors enter into the Interim Sale-Leaseback Agreement and Interim Management Agreement discussed herein. These Interim Agreements will facilitate the transition of the Hospital operations to SGM during the post-closing period before SGM obtains provider agreements and other licensure necessary to operate the Hospitals.

The Debtors will withdraw from or terminate certain of their retirement related benefit plans upon the SGM Sale closing. First, the Debtors have made postpetition contributions to RPHE with respect to active CNA members, pursuant to authorization from the Bankruptcy Court. Based upon information and belief, all requisite contributions have been made to the Local 39 Plan, including through the Chapter 11 Cases and no amounts are currently due and owing. The Debtors are in the process of withdrawing from the Multi-Employer Plans, which is intended to be effective upon the closing of the SGM Sale. Second, the Debtors are in the process of terminating the Defined Contribution Plans and will cease making employer contributions upon the closing of the SGM

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Sale. Third, the Debtors expect to terminate the Retiree Health Benefit effective at the Closing of the SGM Sale. Retirees who utilize the Retiree Health Benefit will receive treatment as set forth under the Plan or under a separate order from the Bankruptcy Court. Amounts contributed prepetition into the section 457(b) Plan will be returned to the Estates for distribution to creditors in accordance with applicable law.

I. Old Republic Accommodations

The Debtors' workers' compensation policy with Old Republic was set to expire on July 1, 2019. Old Republic agreed to continue to provide coverage through January 1, 2020, following approval Bankruptcy Court approval of certain accommodations requested by Old Republic. *See* Docket Nos. 2654, 2803. Also, to provide sufficient collateral to secure a replacement letter of credit necessary to renew the workers' compensation policy, the Debtors filed a supplemental insurance motion, requesting authority to make a capital contribution to Marillac. [Docket No. 2672]. The Bankruptcy Court entered an order granting the supplemental insurance motion on July 26, 2019. [Docket No. 2802].

J. Motions for Relief From the Automatic Stay

Commencing in December, 2018, the Debtors have responded to 22 Motions For Relief From Automatic Stay, in each of which motions a movant has sought relief in order to resolve the amount of their claim in a forum outside the Bankruptcy Court. The Bankruptcy Court has granted each of those motions, in certain instances in accordance with stipulations reached between the Debtors and the movants. In the vast majority of those motions, the movant sought recovery *only* from applicable insurance, if any, and waived any deficiency or other claim against the Debtors or property of the Debtors' bankruptcy estates. In those few cases where a movant sought a deficiency claim, relief from stay was granted on the basis that the stay would remain in effect as to the enforcement of any resulting judgment against the Debtors or the bankruptcy estates, the movants retaining the right to file a proof of claim and/or an adversary complaint under § 523 or § 727 in the Chapter 11 Cases. No such adversary complaints have been filed.

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K. Motions to Approve Settlements

The Debtors obtained Bankruptcy Court approval of the following settlements and compromises pursuant to Bankruptcy Rule 9019:

On October 4, 2018, the Debtors filed a motion [Docket No. 410] (the "Local 39 Settlement Motion") to approve a compromise between OCH, SLRH, and Seton, on the one hand, and Local 39, on the other hand, that provided for the consensual modification of collective bargaining agreements between the parties. The Bankruptcy Court granted the Local 39 Settlement Motion. *See* Docket No. 410.

On February 20, 2019, the Debtors filed a motion [Docket No. 1591] (the "Medline Settlement Motion") to approve a compromise with Medline Industries, Inc. ("Medline")—one of the Debtors' most important medical supply vendors—resolving Medline's prepetition claims and preserving the parties going-forward business relationship. The Bankruptcy Court granted the Medline Settlement Motion. *See* Docket No. 1887.

On April 8, 2019, the Debtors filed a motion [Docket No. 2084] (the "SIS Settlement Motion") to approve a compromise with Surgical Information Systems, LLC that allowed SCC to assume certain critical software licenses and ensure that the SCC Sale closed without disruption. The Bankruptcy Court granted the SIS Settlement Motion. *See* Docket No. 2097.

On April 10, 2019, the Debtors and the Committee filed a joint motion [Docket No. 2112] (the "St. Vincent IPA Settlement Motion") for authority to enter into a settlement agreement with St. Vincent IPA Medical Corporation ("St. Vincent IPA"). The agreement (i) allowed St. Vincent IPA, a critical vendor, to receive a $596,816 payment for certain prepetition amounts, (ii) allowed continuation of risk sharing between St. Vincent IPA and the Debtors, and (iii) provided for an agreed mechanism to resolve overpayments or underpayments pursuant a Healthcare Services Risk Sharing Agreement (the "St. Vincent IPA Agreement"). The Bankruptcy Court granted the St. Vincent IPA Settlement Motion. *See* Docket No. 2371.

On April 30, 2019, the Debtors filed a motion [Docket No. 2285] (the "Premier Settlement Motion") to approve a compromise with Premier, Inc., Premier Services, LLC, Premier Healthcare Alliance, L.P., Premier Healthcare Solutions, Inc., and each of Premier, Inc.'s other subsidiaries

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(collectively, "Premier"). The settlement agreement provides (i) for the satisfaction of Premier's claims and the Debtors' counterclaims, (ii) resolves issues regarding Premier's and the Debtors' post-petition relationship, and (iii) enables the Debtors to recover value from the current and future disposition of certain limited partnership interests that may be worth approximately $7.4 million before payment of cure costs. The Bankruptcy Court granted the Premier Settlement Motion. *See* Docket No. 2461.

On June 28, 2019, the Debtors filed a motion [Docket No. 2644] (the "Smith & Nephew Settlement Motion") to approve a compromise with Smith & Nephew, Inc. that resolved disputes regarding ownership of a certain NAVIO surgical system located at OCH and preserved the parties' going-forward business relationship. The Bankruptcy Court granted the Smith & Nephew Settlement Motion. *See* Docket No. 2793.

On July 3, 2019, the Debtors filed a motion [Docket No. 2670] (the "DMH Settlement Motion") to approve a compromise with the County of Los Angeles Department of Mental Health that allowed the County of Los Angeles to dismiss an appeal brought on behalf of the Debtors in exchange for the modification of the parties' Legal Entity Agreement such that the Debtors would receive $215,590 in additional funding. The Bankruptcy Court granted the DMH Settlement Motion. *See* Docket No. 2814.

L. Other Motions

1. St. Vincent IPA Expedited Relief Motion

On September 7, 2018, St. Vincent IPA filed a motion [Docket No. 109] (the "St. Vincent IPA Expedited Relief Motion") to shorten the Debtors' time to assume or reject the St. Vincent IPA Agreement to October 15, 2018. St. Vincent IPA also filed an application [Docket No. 111] to shorten notice of the hearing on the St. Vincent IPA Expedited Relief Motion, which the Debtors opposed [Docket No. 146].

On September 10, 2018, the Bankruptcy Court entered an order [Docket No. 149] denying St. Vincent IPA's application to shorten notice and set the matter for regular briefing. On September 19, 2018, the Debtors filed their opposition [Docket No. 212]. On September 26, 2018, the Committee filed response [Docket No. 301] and St. Vincent IPA filed a reply brief [Docket No.

306]. The parties entered into negotiations and requested that the Bankruptcy Court not rule on the pleadings to allow the parties to reach a mutual settlement. Ultimately, as discussed above, the Debtors filed the St. Vincent IPA Settlement Motion.

2. Seoul Medical Group Expedited Relief Motion

On June 20, 2019, Seoul Medical Group, Inc. ("Seoul Medical Group") filed a motion [Docket No. 2579] (the "Seoul Medical Group Expedited Relief Motion") to shorten the Debtors' time to assume or reject the Seoul Medical Group Capitated Physician Group Services Agreement. On June 26, 2019, the Debtors [Docket Nos. 2627. 2632] and SGM [Docket No. 2625] filed oppositions to the Seoul Medical Group Expedited Relief Motion to which Seoul Medical Group filed separate reply briefs [Docket Nos. 2667, 2668]. The parties continued the hearings on the Seoul Medical Group Expedited Relief Motion to allow SGM and Seoul Medical Group to continue negotiations. *See* Docket Nos. 2706, 2859, 2860, 2863

M. Debtors' Adversary Proceedings

On January 3, 2019, SVMC and SFMC filed an adversary proceeding against Local Initiative Health Authority for Los Angeles dba L.A. Care Health Plan ("L.A. Care"). *See* Adv. Pro. No. 2:19-ap-01002-ER, Docket No. 1. In the Complaint, SVMC and SFMC brought claims for breach of contract, turnover, unjust enrichment, and violations of the automatic stay based on L.A. Care's failure to pay for services provided to L.A. Care members or paying less than the amounts owed for such services. *See id.* SVMC claimed damages in an amount not less than $4,320,335.32, of which $1,895,994.64 constituted systematic underpayments. *See id.* SFMC claimed damages in an amount not less than $21,054,689.63, of which $12,502,651.97 constituted systematic underpayments. *See id.* On April 15, 2019, the Bankruptcy Court entered an order staying the adversary proceeding pending completion of arbitration. *See id.*, Docket No. 43.

On February 5, 2019, VHS, SVMC and SFMC filed an adversary proceeding against Heritage Provider Network and an amended complaint was filed on March 11, 2019. *See* Adv. Pro. No. 2:19-ap-01042-ER, Docket Nos. 1, 13. In the Amended Complaint, the Debtor Plaintiffs seek to recover not less than $4.1 million from defendant for amounts the Debtors allege were improperly deducted by defendant from amounts owing under certain fee for service and capitation

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agreements. *See id.*, Docket No. 13. On April 12, 2019, defendant filed an answer and affirmative defenses and denied Plaintiffs were entitled to any recovery. *See id.*, Docket No. 22. The parties have requested that the matter be assigned to mediation and are in the process of setting a mutually agreeable mediation date between October 28, 2019 an November 15, 2019. *See id.*, Docket Nos. 27, 33, 34. The adversary proceeding is set for trial starting the week of February 24, 2020. *See id.*, Docket No. 31.

N. Committee's Adversary Proceedings

On June 13, 2019, the Committee filed adversary proceedings against U.S. Bank (Adv. Pro. No. 2-19-ap-01165-ER) and UMB Bank (Adv. Pro. No. 2-19-ap-01166-ER). In both adversary proceedings, the Committee seeks a determination that the applicable Trustee does not have a perfected security interest in deposit accounts, future Quality Assurance Payments and certain other assets. Both Defendants' dates to answer or otherwise plead have been extended by stipulation and the matters are both set for mediation in September 2019. Both adversary proceedings are currently set for trial beginning January 27, 2020.

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V.

PLAN SUMMARY

The following is a summary of the key provisions of the Plan.

A. Administrative Expense and Priority Claims

In accordance with § 1123(a)(1), the following Claims are not classified and are excluded from the Classes set forth in Section 3 hereof and shall receive the treatment discussed below:

1. Administrative Claims

Except to the extent that the Debtors (or the Liquidating Trust) and a Holder of an Allowed Administrative Claim agree to less favorable treatment, a Holder of an Allowed Administrative Claim (other than a Professional Claim, which shall be subject to Section 2.2 of the Plan) shall receive, in full satisfaction, settlement, release, and discharge of, and in exchange for, such Administrative Claim, Cash equal to the unpaid portion of such Allowed Administrative Claim either (a) on the Effective Date, (b) if the Allowed Administrative Claim is based on liabilities incurred by the Debtors in the ordinary course of their businesses after the Petition Date, in the

ordinary course of business in accordance with the terms and conditions of the particular transaction giving rise to such Allowed Administrative Claim, without any further action by the Holder of such Allowed Administrative Claim, or (c) on such other date as agreed between the Debtors (or the Post-Effective Date Debtors) and such Holder of an Allowed Administrative Claim.

2. Professional Claims

All Professionals seeking an award by the Bankruptcy Court of a Professional Claim (other than the Ordinary Course Professionals) shall file their respective final applications for allowance of compensation for services rendered and reimbursement of expenses incurred by the date that is sixty (60) days after the Effective Date, and shall receive, in full satisfaction of such Claim, Cash in an amount equal to 100% of such Allowed Professional Claim promptly after entry of an order of the Bankruptcy Court allowing such Claim or upon such other terms as may be mutually agreed-upon between the Holder of such Professional Claim and the Debtors. Objections to any final applications covering Professional Claims must be filed and served on the Post-Effective Date Debtors, the Liquidating Trustee, and the requesting Professional no later than ninety (90) days after the Effective Date (unless otherwise agreed by the requesting Professional).

3. Statutory Fees

All fees required to be paid by 28 U.S.C. § 1930(a)(6) and any interest thereon ("U.S. Trustee Fees") shall be paid by the Liquidating Trustee in the ordinary course of business until the closing, dismissal or conversion of these Chapter 11 Cases to another chapter of the Bankruptcy Code. Any unpaid U.S. Trustee Fees that accrued before the Effective Date shall be paid no later than thirty (30) days after the Effective Date.

4. Priority Tax Claims

Except to the extent that a Holder of an Allowed Priority Tax Claim agrees to less favorable treatment, each Holder of an Allowed Priority Tax Claim shall receive, in full and final satisfaction of such Allowed Priority Tax Claim, at the option of the Debtors or the Liquidating Trustee, as applicable: (a) Cash in an amount equal to such Allowed Priority Tax Claim on, or as soon thereafter as is reasonably practicable, the later of (i) the Effective Date, to the extent such Claim is an Allowed Priority Tax Claim on the Effective Date, and (ii) the first Business Day after the

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date that is thirty (30) calendar days after the date such Priority Tax Claim becomes an Allowed Priority Tax Claim; or (b) equal annual Cash payments in an aggregate amount equal to the amount of such Allowed Priority Tax Claim, together with interest at the applicable rate pursuant to § 511, over a period not exceeding five (5) years from and after the Petition Date; provided, however, the Debtors and the Liquidating Trustee, as applicable, reserve the right to prepay all or a portion of any such amounts at any time under this option at their discretion.

5. Administrative DIP Lender Claims

Holders of Allowed DIP Lender Claims shall be paid in full in cash on the Effective Date, with such payments to be distributed to the DIP Agent for the ratable benefit of the Holders of DIP Lender Claims.

B. Classification of Claims

1. Classification in General

A Claim is placed in a particular Class for all purposes, including voting, confirmation, and distribution under the Plan and under §§ 1122 and 1123(a)(1); provided that a Claim is placed in a particular Class for the purpose of receiving distributions pursuant to the Plan only to the extent that such Claim is an Allowed Claim in that Class and such Allowed Claim has not been satisfied, released, or otherwise settled prior to the Effective Date.

2. Grouping of Debtors for Deemed Substantive Consolidation

Consistent with the deemed substantive consolidation of the Debtors, as set forth more fully in Section 7.1 of the Plan, the Plan groups the Debtors together for purposes of describing treatment under the Plan, confirmation of the Plan, and making distributions in accordance with the Plan with respect to Claims against and Interests in the Debtors under the Plan. Accordingly, pursuant to the Plan, the Assets of the Debtors and their Estates, and the Claims against and Interests in the Debtors, will be treated as if the Debtors and their Estates are substantively consolidated on the Effective Date. Notwithstanding the foregoing, such groupings shall not affect any Debtor's status as a separate legal entity, change the organizational structure of the Debtors' business enterprise, constitute a change of control of any Debtor for any purpose, cause a merger or consolidation of

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any legal entities, or cause the transfer of any Assets. Except as otherwise provided by or permitted under the Plan, all Debtors shall continue to exist as separate legal entities after the Effective Date.

3. Summary of Classification.

The following table designates the Classes of Claims against each of the Debtors and specifies which of those Classes are (a) Not Impaired by the Plan, (b) Impaired by the Plan, and (c) entitled to vote to accept or reject the Plan in accordance with § 1126. In accordance with § 1123(a)(1), Administrative Claims, Professional Claims, Statutory Fees, Priority Tax Claims, and Administrative DIP Lender Claims, have not been classified. All of the potential Classes for the Debtors are set forth herein. Certain of the Debtors may not have holders of Claims in a particular Class or Classes, and such Classes shall be treated as set forth in Section 3.5 of the Plan.

All Debtors			
Class	**Designation**	**Impairment**	**Entitled to Vote**
1A	Other Priority Claims	Not Impaired	No (deemed to accept)
1B	Secured PACE Tax Financing Claims	Not Impaired	No (deemed to accept)
2	Secured 2005 Revenue Bond Claims	Impaired	Yes
3	Secured 2015 Notes Claims	Impaired	Yes
4	Secured Series 2017 Revenue Note Claims	Impaired	Yes
5	Secured MOB I Financing Claims	Impaired	Yes
6	Secured MOB II Financing Claims	Impaired	Yes
7	Secured Mechanics Lien Claims	Impaired	Yes
8	PBGC Claims	Impaired	Yes
9	RPHE Claims	Impaired	Yes
10	General Unsecured Claims	Impaired	Yes
11	Convenience Claims	Impaired	Yes
12	Insured Claims	Impaired	Yes
13	2016 Data Breach Claims	Impaired	Yes
14	Subordinated General Unsecured Claims	Impaired	No (deemed to reject)
15	Interests	Impaired	No (deemed to reject)

4. Special Provision Governing Unimpaired Claims

Except as otherwise provided in the Plan, nothing under the Plan shall affect the rights of the Debtors or the Liquidating Trust, with respect to any Unimpaired Claims, including legal and equitable defenses to, or setoffs or recoupments against, any such Unimpaired Claims.

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5. Elimination of Vacant Classes

Any Class of Claims that, as of the commencement of the Confirmation Hearing, does not have at least one (1) Holder of a Claim in an amount greater than zero for voting purposes shall be considered vacant, deemed eliminated from the Plan for purposes of voting to accept or reject the Plan, and disregarded for purposes of determining whether the Plan satisfies § 1129(a)(8) with respect to that Class.

C. Treatment of Claims

In full and final satisfaction of all of the Claims against the Debtors (except with respect to Unclassified Claims that are satisfied as noted above), the Claims shall receive the treatment described below. Except to the extent expressly provided in Section 4 of the Plan, the timing of distributions is addressed in Section 8.3 of the Plan. A chart summarizing the current asserted Claims in each class and the current estimate of the amount of Claims that will ultimately become Allowed Claims is set forth below, although the ultimate amount of Claims which become Allowed Claims could be higher or lower than the estimates below:

Summary of Classification

Class	Designation	Asserted Claims (Per KCC)	Estimated Allowed Claims
1A	Priority Non-Tax Claims (1)	$ 155,384,184	$ 4,000,000
1B	Secured PACE Tax Financing Claims	$ 43,013,555	$ 40,000,000
2	Secured 2005 Revenue Bond Claims	$ 261,897,375	$ 259,445,000
3	Secured 2015 Notes Claims	$ 161,041,177	$ 160,000,000
4	Secured Series 2017 Revenue Note Claims	$ 42,253,750	$ 42,000,000
5	Secured MOB I Financing Claims	$ 46,363,096	$ 46,363,096
6	Secured MOB II Financing Claims	$ 20,061,919	$ 20,061,919
7	Secured Mechanics Lien Claims	$ 2,187,017	$ 2,187,017
8	PBGC Claims (2)	$ 364,912,587	$ [_____]
9	RPHE Claims (2)	$ 353,102,772	$ [_____]
10	General Unsecured Claims	$ 5,831,000,000	$ 710,000,000
11	Convenience Claims	N/A	$ 50,000,000
12	Insured Claims	N/A	N/A
13	2016 Data Breach Claims	N/A	N/A
14	Subordinated General Unsecured Claims	N/A	N/A
15	Interests	N/A	N/A

(1) Excludes PBGC, RPHE, Trade and Tax claims

(2) Asserted claim includes priority and general unsecured claims

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1. Class 1A: Priority Non-Tax Claims

a. *Classification*. Class 1A consists of Priority Non-Tax Claims.

b. *Treatment*. Except to the extent that a Holder of a Priority Non-Tax Claim agrees to a less favorable treatment of such Claim, each such Holder shall receive payment in Cash in an amount equal to the amount of such Allowed Claim, payable on the later of the Effective Date and the date that is fourteen (14) Days after the date on which such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim, in each case, or as soon as reasonably practicable thereafter.

c. *Voting*. Class 1A is Unimpaired. Holders of Priority Non-Tax Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

2. Class 1B: Secured PACE Tax Financing Claims

a. *Classification.* Class 1B consists of the Secured PACE Financing Claims.

b. *Treatment.* Each Allowed Secured PACE Tax Financing Claim shall be assumed pursuant to the SGM Sale and shall not receive any distributions under the Plan.

c. *Voting*. Class 1B is Unimpaired. Holders of Secured PACE Tax Financing Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

3. Class 2: Secured 2005 Revenue Bond Claims

a. *Classification.* Class 2 consists of the Secured 2005 Series A, G and H Revenue Bonds Claims against each Obligated Group Member.

b. *Treatment*. The Secured Series A, G and H Revenue Bonds Claims shall be paid cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $259,445,000, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2005 Revenue Bond Indentures, excluding any interest at the default rate, the Tax Rate, or make whole premium, and (ii) accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2005 Revenue Bonds Trustee and the Master Trustee, pursuant to the Final DIP Order through and including the Effective Date, less (a) any amounts held by the Master Trustee and/or the 2005 Revenue Bonds Trustee in a (i) principal or revenue account, (ii) debt service or redemption reserve, or (iii) an escrow or expense reserve account, (b) principal payments since the Petition Date made by the 2005 Revenue Bonds Trustee to Holders of 2005 Revenue Bonds, and (c) any amounts remitted to the Master Trustee and/or 2005 Revenue Bonds Trustee, prior to the Effective Date on account of the Remediation Order. No beneficial Holder of any Secured Series A, G and

H Revenue Bonds Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such Holder by the 2005 Revenue Bonds Trustee.

c. *Subordination.* Class 2 shall be permitted to retain the Class 2 distribution in full notwithstanding anything to the contrary in the Intercreditor Agreement and on the Effective Date, and conditioned on respective receipt of all of the Plan payments to the respective the Bond and Notes Trustees on behalf of Classes 2, 3, and 4 due upon the Effective Date, the Intercreditor Agreement shall terminate and be of no further force and effect. Payments by Debtors to the 2005 Revenue Bonds Trustee in the amounts and manner provided herein are sufficient to, and upon transmission by the 2005 Revenue Bonds Trustee to the Holders of the Secured 2005 Revenue Bonds Claims of the principal and accrued interest calculated in the manner provided herein shall be deemed to, have defeased irrevocably the 2005 Series A, G, and H Revenue Bonds for all purposes.

d. *Voting*. Class 2 is Impaired. The beneficial Holders of the Secured 2005 Series 2005 A, G and H Revenue Bond Claims are entitled to vote to accept or reject the Plan.

4. Class 3: Secured 2015 Notes Claims

a. *Classification*. Class 3 consists of the Secured 2015 Notes Claims against each Obligated Group Member.

b. *Treatment*. The Secured 2015 Revenue Notes Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $160,000,000, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2015 Revenue Note Indentures for each of 2015 Revenue Notes Series A, B, C and D, excluding any interest at a default rate or any redemption or other premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2015 Notes Trustee and the Master Trustee, pursuant to the Final DIP Order through and including the Effective Date, less any amounts held by the Master Trustee and/or the 2015 Notes Trustee in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2015 Notes Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2015 Notes Trustee.

c. *Subordination*. Class 3 shall be permitted to retain the Class 3 distribution in full notwithstanding anything to the contrary in the Intercreditor Agreement and on the Effective Date, and conditioned on respective receipt of all of the Plan payments to the respective the Bond and Notes Trustees on behalf of Classes 2, 3, and 4 due upon the Effective Date, the Intercreditor Agreement shall terminate and be of no further force and effect. Payments by Debtors to the 2015 Notes Trustee in the amounts and manner provided

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herein are sufficient to, and upon transmission by the 2015 Notes Trustee to the Holders of the Secured 2015 Revenue Notes Claims of the principal and accrued interest calculated in the manner provided herein shall be deemed to, have defeased irrevocably the 2015 Revenue Notes for all purposes.

d. *Voting*. Class 3 is Impaired, and the beneficial Holders of Secured 2015 Revenue Notes Claims are entitled to vote to accept or reject the Plan.

5. Class 4: Secured 2017 Revenue Note Claims

a. *Classification*. Class 4 consists of the Secured 2017 Revenue Note Claims.

b. *Treatment*. The Secured 2017 Revenue Note Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $42,000,000, plus (i) any accrued, but unpaid postpetition interest, if any, at the rate specified in the 2017 Revenue Note Indentures, excluding any interest at a default rate, make whole premium or redemption premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2017 Notes Trustee and the Master Trustee pursuant to the Final DIP Order through and including the Effective Date, less any amounts held by the Master Trustee and/or the 2017 Notes Trustee in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2017 Notes Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2017 Notes Trustee.

c. *Subordination*. Class 4 shall be permitted to retain the Class 4 distribution in full notwithstanding anything to the contrary in the Intercreditor Agreement and on the Effective Date, and conditioned on respective receipt of all of the Plan payments to the respective the Bond and Notes Trustees on behalf of Classes 2, 3, and 4 due upon the Effective Date, the Intercreditor Agreement shall terminate and be of no further force and effect. Payments by Debtors to the 2017 Notes Trustee in the amounts and manner provided herein are sufficient to, and upon transmission by the 2017 Notes Trustee to the Holders of the Secured 2017 Revenue Notes Claims of the principal and accrued interest calculated in the manner provided herein shall be deemed to, have defeased irrevocably the 2017 Revenue Notes for all purposes.

d. *Voting*. Class 4 is Impaired. The beneficial Holders of Secured 2017 Revenue Note Claims are entitled to vote to accept or reject the Plan.

6. Class 5: Secured MOB I Financing Claims

a. *Classification.* Class 5 consists of the MOB I Financing Claims.

b. *Treatment.* The Secured MOB I Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $46,363,095.90, plus (i) accrued but unpaid postpetition interest, if any, at the rate specified in the MOB I

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Loan Agreement, excluding any interest at the default rate, or make whole premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing LLC, pursuant to the Final DIP Order through and including the Effective Date.

c. *Voting*. Class 5 is Impaired. Holders of MOB I Financing Claims are entitled to vote to accept or reject the Plan.

7. Class 6: Secured MOB II Financing Claims

a. *Classification*. Class 6 consists of the Secured MOB II Financing Claims.

b. *Treatment*. The Secured MOB II Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $20,061,919.48, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the MOB II Loan Agreements, excluding any interest at the default rate, or make whole premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing II LLC, pursuant to the Final DIP Order through and including the Effective Date.

c. *Voting*. Class 6 is Impaired. Holders of Secured MOB II Financing Claims are entitled to vote to accept or reject the Plan.

8. Class 7: Secured Mechanics Lien Claims

a. *Classification*. Class 7 consists of the Secured Mechanics Lien Claims.

b. *Treatment*. Each Allowed Secured Mechanics Lien Claim shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of the Allowed Claim, plus (i) accrued but unpaid postpetition interest at the appropriate contract rate, if any, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses permitted by contract.

c. *Voting*. Class 7 is Impaired. Holders of Secured Mechanics Lien Claims are entitled to vote to accept or reject the Plan.

9. Class 8: PBGC Claims

a. *Classification.* Class 8 consists of the PBGC Claims against all Debtors.

b. *Treatment.* On the Effective Date, the PBGC shall be the Holder of a Claim in an amount equal to 100% of a single Allowed General Unsecured Claim in the aggregate amount of [$_____]. On the Effective Date, or as soon as reasonably practicable thereafter, the PBGC shall receive Trust Beneficial Interests and become a Trust Beneficiary, in satisfaction of its Allowed Class 8 Claim. Except as may be expressly provided in a PBGC Settlement, the PBGC's Trust Beneficial Interests shall be in full and final satisfaction of such Allowed Claim. The foregoing treatment is intended to compensate the PBGC for the impact of the proposed deemed substantive consolidation

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under the Plan.[5] The Debtors will attempt to reach an agreement with the PBGC concerning the treatment of the PBGC Claim.

c. *Voting.* Class 8 is Impaired. Holders of PBGC Claims are entitled to vote to accept or reject the Plan.

10. Class 9: RPHE Claims

a. *Classification.* Class 9 consists of the RPHE Claims against all Debtors.

b. *Treatment.* On the Effective Date, the RPHE shall be the Holder of a Claim in an amount equal to 100% of a single Allowed General Unsecured Claim in the aggregate amount of [$_____]. On the Effective Date, or as soon as reasonably practicable thereafter, the RPHE shall receive Trust Beneficial Interests and become a Trust Beneficiary in full and final satisfaction of its Allowed Class 9 Claim. The foregoing treatment is intended to compensate the RPHE for the impact of the proposed deemed substantive consolidation under the Plan. The Debtors will attempt to reach an agreement with the RPHE concerning the treatment of the RPHE Claim.

c. *Voting.* Class 9 is Impaired. Holders of RPHE Claims are entitled to vote to accept or reject the Plan.

11. Class 10: General Unsecured Claims

a. *Classification.* Class 10 consists of the General Unsecured Claims against all Debtors.

b. *Treatment*. As soon as practicable after the Effective Date or as soon thereafter as the claim shall have become an Allowed Claim, each holder of an Allowed General Unsecured Claim shall receive a Trust Beneficial Interest and become a Trust Beneficiary in full and final satisfaction of its Allowed Class 10 Claim, except to the extent that such Holder agrees (a) to become a Convenience Claim, (b) to a less favorable treatment of such Claim, or (c) such Claim has been paid before the Effective Date.

c. *Voting*. Class 10 is Impaired. Holders of General Unsecured Claims are entitled to vote to accept or reject the Plan.

12. Class 11: Convenience Claims

a. *Classification*. Class 11 consists of the Convenience Claims.

b. *Treatment*. Each Holder of an Allowed Convenience Claim, or an Allowed General Unsecured Claim that has been voluntarily reduced and converted to an Allowed Convenience Claim, shall receive on the Effective Date or as soon thereafter as practical after the Claim has become an Allowed Convenience Claim, in full and final satisfaction of such Allowed Claim,

[5] The Debtors are in negotiations with the PBGC regarding the amount and classification of its claims. The Debtors intend to amend the Disclosure Statement and Plan after further negotiations with respect to the PBGC and RPHE.

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Cash in an amount equal to four percent (4%) of its Allowed Convenience Claim.

c. *Voting*. Class 11 is Impaired. Holders of Convenience Claims are entitled to vote to accept or reject the Plan.

13. Class 12: Insured Claims*Classification*. Class 12 consists of Allowed Insured Claims.

b. *Treatment*. Each Insured Claim shall be deemed objected to and disputed and shall be resolved in accordance with this Section, notwithstanding any other Plan provision.

Except to the extent that a Holder of an Insured Claim agrees to different treatment, or unless otherwise provided by an order of the Bankruptcy Court directing such Holder's participation in any alternative dispute resolution process, on the Effective Date, or as soon thereafter as is reasonably practicable, each Holder of an Insured Claim shall receive, on account of its Insured Claim, relief from the automatic stay under § 362 and the injunctions provided under the Plan for the sole and limited purpose of permitting such Holder to seek its recovery, if any, as determined and Allowed by an order or judgment by a court of competent jurisdiction or under a settlement or compromise of such Holder's Insured Claim from the applicable and available Insurance Policies maintained by or for the benefit of any of the Debtors. A Holder's recovery of insurance proceeds under the applicable Insurance Policy(ies) shall be the sole and exclusive recovery on an Insured Claim. Any settlement of an Insured Claim within a self-insured retention or deductible must be approved by the Liquidating Trustee.

Any amount of an Allowed Insurance Claim within a deductible or self-insured retention shall be paid by the applicable insurance to the Claim Holder and such insurer shall have a General Unsecured Claim (or Secured Claim, if it holds collateral) for the amount of the deductible or retention paid, provided that it has timely filed an otherwise not objectionable proof of claim encompassing such amounts. For purposes of retentions and deductibles in any Insurance Policy, the Debtors are insolvent and unable to advance or indemnify any loss, claim, damage, settlement or judgment of Debtors within the applicable retention or deductible amount. Notwithstanding any other provision of this Section, Old Republic Insurance Company shall be entitled to all accommodations that it requested in connection with renewal of Debtors' workers' compensation policy, as approved by order of the Bankruptcy Court [Docket No. 2803].

c. *Voting*. Class 12 is Impaired. Holders of Insured Claims are entitled to vote to accept or reject the Plan. Unless otherwise ordered by the Bankruptcy Court, each Holder of a Class 12 Insured Claim shall have a $1.00 vote for each filed Insured Claim.

14. Class 13: 2016 Data Breach Claims

a. *Classification*. Class 13 consists of Allowed 2016 Data Breach Claims.

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b. *Treatment*. Each holder of an Allowed 2016 Data Breach Claim shall receive access to credit monitoring services at the sole cost of the Debtors for a period of two (2) years following the Effective Date.

c. *Voting*. Class 13 is Impaired. Holders of Allowed 2016 Data Breach Claims are entitled to vote to accept or reject the Plan.

15. Class 14: Subordinated General Unsecured Claims

a. *Classification*. Class 14 Claims consists of Subordinated General Unsecured Claims.

b. *Treatment.* Holders of Allowed Subordinated General Unsecured Claims shall not receive any recovery from the Debtors on or after the Effective Date.

c. *Voting*. Class 14 is Impaired. Holders of Subordinated General Unsecured Claims are deemed to reject the Plan and are not entitled to vote.

16. Class 15: Interests

a. *Classification.* Class 15 consists of Allowed Interests against any Debtor.

b. *Treatment*. Holders of Allowed Interests shall not receive any recovery from the Debtors under the Plan.

c. *Voting*. Class 15 is Impaired. The holders of Interests are deemed to reject the Plan and are not entitled to vote.

VI.

MEANS OF EFFECTUATION AND IMPLEMENTATION OF THE PLAN

The key means to effectuation and implementation of the Plan are summarized below, and set forth in more detail in the Plan and the Liquidating Trust Agreement.

A. Conditions to Effective Date. The following are conditions precedent to the Effective Date:

(a) The Confirmation Order shall become a Final Order;

(b) The SGM Sale shall have closed;

(c) The Debtors shall have sufficient Cash to satisfy the Unclassified Claims and the Secured Claims that are payable on the Effective Date;

(d) The Debtors shall have sufficient Cash to fund the Liquidating Trust Reserve;

(e) All documents, instruments and agreements provided for under or necessary to implement the Plan (including without limitation, the Interim Agreements, the Transition Services Agreement and the Liquidating Trust Agreement) shall have been executed and delivered by the parties thereto, unless such execution or delivery shall have been waived by the parties benefited thereby.

The Debtors may waive the conditions to effectiveness of the Plan, set forth in Section 12.2 of the Plan, without leave of the Bankruptcy Court and without any formal action other than proceeding with confirmation of the Plan and filing a notice of confirmation with the Bankruptcy Court. To the extent that the Debtors are unable to satisfy the conditions to the effectiveness of the Plan set forth in Section 12 of the Plan, the Debtors reserve the right to amend the Plan at such time (in accordance with the terms of the Plan) to address such inability.

B. Deemed Substantive Consolidation

Section 7.1 of the Plan requests that each of the Debtors' Estates be "deemed" substantively consolidated for the purposes set forth in the Plan described above. Certain facts supporting deemed substantive consolidation are set forth below. This Disclosure Statement provides adequate information regarding the Debtors' request to treat their Estates substantively consolidated; however, the Debtors will not seek approval of deemed substantive consolidation at the hearing to approve this Disclosure Statement. A discussion setting forth the bases for deemed substantive consolidation of the Debtors' Estates is set forth in Section XIV hereof.

The deemed substantive consolidation effected pursuant to the Plan shall not affect, without limitation, (i) the Debtors', the Post-Effective Date Debtors', or the Liquidation Trust's defenses to any Claim or Cause of Action, including the ability to assert any counterclaim, provided that the Liquidating Trust shall neither assert nor preserve Intercompany Claims, except to the extent necessary to preserve claims and defenses against third parties other than the Debtors; (ii) the Debtors', the Post-Effective Date Debtors', or the Liquidation Trust's setoff or recoupment rights; (iii) requirements for any third party to establish mutuality prior to deemed substantive consolidation in order to assert a right of setoff against the Debtors, the Post-Effective Date Debtors, or the Liquidation Trust; (iv) distributions to the Debtors, the Estates, the Post-Effective

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Date Debtors, or the Liquidation Trust out of any Insurance Policies or proceeds of such policies; (v) distributions to the Debtors, the Estates, the Post-Effective Date Debtors, or the Liquidation Trust from any governmental programs, including, but not limited to, Medicare, and Medi-Cal including any fee for service payments and any payments under the Quality Assurance Fee program; (vi) the applicability and enforceability of any government issued licenses, including, but not limited to, the Hospital Licenses, or (vii) any Avoidance Action or any other Cause of Action held by the Debtors arising under §§ 541 through 550, or state laws of similar effect, against any third party other than the other Debtors, except to the extent any such actions are expressly waived or settled pursuant to the Plan.

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C. Post-Effective Date Governance of Certain Entities

The Sale-Leaseback Debtors and SCC Debtors shall continue to exist after the Effective Date of the Plan (i) with the Sale-Leaseback Debtors existing until the expiration of the Interim Agreements so that they may engage in the transition tasks set forth in Section 5.6 of the Plan, (ii) with the SCC Debtors existing until all Quality Assurance Payments are collected, and (iii) with a Responsible Officer, to be identified in the Plan Supplement, will be responsible for the Sale-Leaseback Debtors and the SCC Debtors as discussed in Section 5.8 of the Plan. The primary transaction task (i) for the Sale-Leaseback Debtors involves the Interim Agreements, and (ii) for the SCC Debtors involves remitting Quality Assurance Payments received after the Effective Date to the Liquidating Trust.

1. Post-Effective Date Board of Directors

On the Effective Date, the board members of VHS shall resign and the Post-Effective Date Board of Directors of VHS will be appointed. The members that make up the Post-Effective Date Board of Directors shall also serve and remain as the members of each of the subsidiary boards and any other boards required to be in existence. The Post-Effective Date Board of Directors shall (i) fulfill its duties and obligations under the bylaws and state and federal law and (ii) appoint and oversee the Responsible Officer, consistent with the terms of the Plan. The Post-Effective Date Board of Directors is further discussed in Section 5.8 of the Plan.

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2. Post-Effective Date Committee

Pursuant to Section 7.10 of the Plan, on the Effective Date, the Committee shall be dissolved (except with respect to any then pending litigation or contested matter to which the Committee is a party and any appeals filed regarding confirmation of the Plan) and the Post-Effective Date Committee shall be appointed. The members that shall serve on the Post-Effective Date Committee shall be selected by the Committee and shall be disclosed in a Plan Supplement. The Post-Effective Date Committee shall have duties in accordance with the Plan and the Liquidating Trust Agreement to: (i) consult and coordinate with the Liquidating Trustee as to the administration of the Liquidating Trust and the Liquidating Trust Assets, including, without limitation, consulting on the Operating Budget and the Liquidating Budget; and (ii) consult and coordinate with the Responsible Officer.

3. Liquidating Trust

As set forth in Section 6 and elsewhere in the Plan and in the Liquidating Trust Agreement, a Liquidating Trust is being established on the Effective Date of the Plan, which will hold and prosecute Causes of Action (including Avoidance Actions) and other Liquidating Trust Assets being contributed to the Liquidating Trust Assets. Allowed Claims in Class 8 (PBGC), Class 9 (RPHE), and Class 10 (General Unsecured Claims) will receive Trust Beneficial Interests, which shall be entitled to receive periodic distribution of net proceeds received by the Liquidating Trust, as set forth in the Plan and the Liquidating Trust Agreement. The Liquidating Trust shall have an initial duration of five (5) years (subject to possible extension).

The primary purpose of the Liquidating Trust shall be the liquidation and distribution of its assets, in accordance with Treasury Regulation (defined below) section 301.7701-4(d). The primary functions of the Liquidating Trust are as follows: (i) to liquidate, sell, or dispose of the Trust Assets; (ii) to cause all net proceeds of the Trust Assets, including proceeds of Causes of Action on behalf of the Trust to be deposited into the Trust; (iii) to initiate actions to resolve any remaining issues regard the allowance and payment of Claims including, as necessary, initiation and/or participation in proceedings before the Court; (iv) to take such actions as are necessary or useful to maximize the value of the Trust; and (v) to make the payments and distributions to

Holders of Allowed Claims, including Trust Beneficiaries, as required by the Plan.

The Liquidating Trustee shall have the other powers and duties set forth in the Plan and the Liquidating Trust Agreement. Certain tax and securities law considerations related to the Trust Beneficial Interests in the Liquidating Trust are discussed below in this Disclosure Statement.

4. Insurance Captive

VHS, in its capacity as a Post-Effective Date Debtor, and/or the Liquidating Trustee shall take such action as reasonably necessary and advisable to effectuate the sale, disposition or other administration of the issued and outstanding equity interest in and assets of Marillac.[6] The net cash proceeds of such sale, disposition or other administration, if any, to the Liquidating Trust shall be used to pay Holders of Claims, as set forth in the Plan and the Liquidating Trust Agreement or as otherwise agreed pursuant to a Creditor Settlement Agreement.

5. Coordination Between Post-Effective Date Debtors and the Liquidating Trust

Notwithstanding anything herein to the contrary, in furtherance of the purposes of the Liquidating Trust, at the request of the Liquidating Trustee, the Post-Effective Date Debtors (including, without limitation, the Responsible Officer and the Post-Effective Date Debtors' employees, agents and/or professionals) shall be authorized to provide assistance and services to, or otherwise act on behalf of, the Liquidating Trustee in the performance of the Liquidating Trustee's duties under the Plan and the Liquidating Trust Agreement. Without limitation on the foregoing, the Post-Effective Date Debtors shall be authorized to assist in the reconciliation and administration of claims, and assist in the liquidation and/or collection of Liquidating Trust Assets (including, without limitation, litigation claims). The Liquidating Trustee shall oversee all such services provided on behalf of the Liquidating Trustee.

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[6] The Plan will modify this provision in the event VHS sells or otherwise disposes of the issued and outstanding shares in Marillac prior to the Effective Date.

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6. Dissolution of Certain Non-Debtor Entities on the Effective Date

The following non-debtor entities shall be deemed dissolved under applicable state law as of the Effective Date pursuant to Section 5.2 of the Plan:

- De Paul Ventures - San Jose ASC, LLC
- Sports Medicine Management, Inc.
- St. Vincent de Paul Ethics Corporation
- V Holdings MOB, LLC
- Robert F. Kennedy Medical Center
- Robert F. Kennedy Medical Center Foundation

These entities have no material assets or operations.

7. Termination of Responsibilities of the Patient Care Ombudsman

On the SGM Sale closing date, the duties and responsibilities of the Patient Care Ombudsman shall be terminated and the Patient Care Ombudsman shall be discharged from his duties as Patient Care Ombudsman and shall not be required to file any further reports or perform any additional duties as Patient Care Ombudsman. No person or entity may seek discovery in any form, including, but not limited to, by motion, subpoena, notice of deposition or request or demand for production of documents, from the Patient Care Ombudsman or his agents, professionals, employees, other representatives, designees or assigns (collectively, with the Patient Care Ombudsman, the "Ombudsman Parties") with respect to any matters arising from or relating in any way to the performance of the duties of the Patient Care Ombudsman in these Chapter 11 Cases, including, but not limited to, pleadings, reports or other writings filed by the Patient Care Ombudsman in connection with these Chapter 11 Cases. Nothing herein shall in any way limit or otherwise affect the obligations of the Patient Care Ombudsman under confidentiality agreements, if any, between the Patient Care Ombudsman and any other person or entity or shall in any way limit or otherwise affect the Patient Care Ombudsman's obligation, under §§ 332(c) and 333(c)(1) or other applicable law or Bankruptcy Court Orders, to maintain patient information, including patient records, as confidential, and no such information shall be released by the Patient Care Ombudsman without further order of the Bankruptcy Court.

8. Retention and Payment of Professionals Post-Effective Date

The Post-Effective Date Debtors, the Post-Effective Date Committee and the Liquidating Trust

may retain and pay professionals in connection with their respective roles. Such retentions and payments shall not be subject to Bankruptcy Court approval or fee applications.

9. Creditor Settlement Agreements

Prior to or in connection with the Confirmation Hearing, there are expected to be settlements with creditors and other parties. Such settlements will be filed either as part of a Plan Supplement or a separate pleading, which may be filed for expedited hearing at or before the Confirmation Hearing.

VII.

DISTRIBUTIONS

A. Funding for the Distributions to Creditors

The funding for distributions shall primarily be from the net proceeds from the SCC Sale already received and the anticipated net proceeds from the closing of the SGM Sale, as well as receipt of certain receivables and fees after the Effective Date and the net proceeds of Causes of Action including Avoidance Actions to be pursued by the Liquidating Trust.

B. Distribution Mechanisms

The Liquidating Trust shall be charged with making distributions under the Plan with respect to all Allowed Claims as set forth in Section 8 of the Plan. Unless otherwise provided in the Plan, all distributions on account of Allowed Claims, other than the General Unsecured Claims, shall be made as soon as practicable on or after the Effective Date. Distributions on account of Allowed Claims in Classes 8, 9 and 10 shall be made exclusively on the basis of Trust Beneficial Interests at least annually, provided, however, that distributions need not be made to the extent there is no Cash in one or more reserve accounts to distribute or if the Liquidating Trustee determines that it is reasonably necessary to retain Cash in one or more reserve accounts to maintain the value of the Liquidating Trust Assets or to meet any claims or contingent liabilities against the Liquidating Trust, taking into account the available Cash in the Unsecured Claims Fund and the costs and expenses of each such distribution. Distributions are subject to withholding and setoff.

C. Unsecured Claims Fund

Sections 7.8 and 7.9 of the Plan provides for the establishment of one or more accounts or

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reserves of Cash established by the Liquidating Trustee for payment of all Allowed Unsecured Claims on or after the Effective Date. As Disputed Unsecured Claims are resolved and become Allowed, Cash in the Disputed Unsecured Claim Reserve shall be transferred into the unreserved portion of the Unsecured Claims Fund and made available for distribution to the Holders of such newly Allowed Unsecured Claims in an amount of their Pro Rata Share in accordance with the Plan.

D. Claims Administration

Unless otherwise ordered by the Bankruptcy Court after notice and a hearing, and except as otherwise expressly provided herein, the Liquidating Trustee, in consultation with the Post-Effective Date Committee, shall have the exclusive right to file, prosecute, resolve and otherwise deal with objections to Claims. The Liquidating Trustee shall serve a copy of each Claim objection upon the holder of the Claim to which the objection is made. Objections with respect to all Claims shall be made as soon as reasonably practical but in no event later than the Claims Objection Deadline. If the Liquidating Trustee wishes to extend the Claims Objection Deadline, it may do so pursuant to a motion on notice to the Post-Effective Date Committee, which may be approved without a hearing. The Claims Objection Deadline means the First Business Day that is later of (a) two hundred ten (210) days after the Effective Date, or (b) such other later date as the Bankruptcy Court may establish upon a motion by the Liquidation Trustee in accordance with the Plan.

Section 10 of the Plan sets forth the mechanisms for treatment of Claims which are subject to dispute pending their Allowance or Disallowance. The following Claims shall be automatically Disallowed and expunged, without the need for filing any objections thereto, and shall not be entitled to any distributions under the Plan: (a) Claims for which no Proof of Claim was filed by the applicable Bar Date even though such Claims were listed on the Schedules as disputed, contingent, or unliquidated; and (b) Claims covered by § 502(d) to the extent that the holder of such Claim has not been paid the amount or turned over the property for which such holder is liable under §§ 522(i), 542, 543, 550, or 553, in accordance with § 502(d).

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E. Preservation of Insurance

Nothing in the Plan shall diminish, impair or otherwise affect distributions from the proceeds or the enforceability of any insurance policies that may cover (a) Claims by any Debtor, or (b) Claims against any Debtor or covered Persons thereunder.

F. Executory Contracts and Unexpired Leases

On the Effective Date, all Executory Agreements to which any Debtor is a party shall be deemed rejected as of the Effective Date, except for those Executory Agreements that (a) have been assumed or rejected pursuant to a Final Order of the Bankruptcy Court (including pursuant to any Sale Order), (b) are the subject of a separate motion to assume, assume and assign, or reject filed under § 365 on or before the Effective Date, (c) are specifically designated as a contract or lease to be assumed on the Schedule of Assumed Contracts and no timely objection to the proposed assumption has been filed, provided, however, that the Debtors reserve the right to amend the Plan Supplement at any time on or before thirty (30) days after the Effective Date to modify the Schedule of Assumed Contracts to include or delete any Executory Agreements. If the party to an Executory Agreement listed to be assumed in the Schedule of Assumed Contracts wishes to object to the proposed assumption (including with respect to the cure amounts), it shall do so within thirty (30) days from the service of the Schedule of Assumed Contracts. Claims arising out of the rejection of an Executory Agreement pursuant to the Plan must be filed with the Bankruptcy Court (or as otherwise provided for in the Debtors' notice of rejection) no later than thirty (30) days after the Effective Date. Any Claims not filed within such time period will be forever barred from assertion against the Debtors and/or their property and/or their Estates.

G. Causes of Action Including Avoidance Actions

Nothing contained in the Plan shall be deemed a waiver or relinquishment of any claims or Causes of Action of the Debtors that are not specifically waived or relinquished by the Plan, which shall vest in the Liquidating Trust, subject to any existing valid and perfected security interest or lien in such Causes of Action. The Causes of Action preserved under the Plan include, without limitation, the pending adversary proceedings discussed above and claims, rights or other causes of action:

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(a) against vendors, suppliers of goods or services (including attorneys, accountants, consultants, physicians or other professional service providers), utilities, contract counterparties, and other parties for, including but not limited to: (A) services rendered; (B) over- and under-payments, back charges, duplicate payments, improper holdbacks, deposits, warranties, guarantees, indemnities, setoff or recoupment; (C) failure to fully perform or to condition performance on additional requirements under contracts with any one or more of the Debtors; (D) wrongful or improper termination, suspension of services or supply of goods, or failure to meet other contractual or regulatory obligations; (E) indemnification and/or warranty claims; or (F) turnover causes of action arising under §§ 542 or 543;

(b) against landlords or lessors, including, without limitation, for erroneous charges, overpayments, returns of security deposits, indemnification, or for environmental claims;

(c) arising against current or former tenants or lessees, including, without limitation, for non-payment of rent, damages, and holdover proceedings;

(d) arising from damage to Debtors' property;

(e) relating to claims, rights, or other causes of action the Debtors may have to interplead third parties in actions commenced against any of the Debtors;

(f) for collection of a debt owed to any of the Debtors;

(g) against insurance carriers, reinsurance carriers, underwriters or surety bond issuers relating to coverage, indemnity, contribution, reimbursement or other matters;

(h) relating to pending litigation, including, without limitation, the suits, administrative proceedings, executions, garnishments, and attachments listed in Attachment 4a to each of the Debtors' Statements of Financial Affairs;

(i) arising from claims against health plans;

(j) that constitute Avoidance Actions;

(k) arising under or relating to any and/or all asset purchase agreements and related sale documents (including, without limitation, any leases) entered into during these Chapter 11 Cases, including, but not limited to, enforcement of such agreements by the Debtors' Estates and/or breaches of any and/or all such agreements by the applicable non-Debtor parties (including,

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without limitation, the purchasers of the Debtors' assets under such agreements and any and all principals and/or guarantors of the obligations under or relating to such agreements); and

(l) relating to the Operating Assets.

The Liquidating Trustee, the Post-Effective Date Committee, the Responsible Officer and the Post-Effective Date Debtors shall have, retain, reserve and be entitled to assert all such claims, rights of setoff and other legal or equitable defenses that the Debtors had immediately prior to the Petition Date as fully as if the Chapter 11 Cases had not been commenced, and all of the Debtors' legal and equitable rights respecting any claim that is not specifically waived or relinquished by the Plan may be asserted by the Liquidating Trustee and the Post-Effective Date Committee on their behalf after the Effective Date to the same extent as if the Chapter 11 Cases had not been commenced. On and after the Effective Date, in accordance with § 1123(b) and the terms of the Plan, the Liquidating Trustee, the Post-Effective Date Committee, the Responsible Officer and the Post-Effective Date Debtors shall retain and have the exclusive right to prosecute, abandon, settle or release any or all Causes of Action, as they deem appropriate, without the need to obtain approval or any other or further relief from the Bankruptcy Court. The Post-Effective Date Committee shall analyze potential Causes of Action in consultation with the Liquidating Trustee, to determine whether the pursuit of these actions would be beneficial. The Liquidating Trustee shall also confer and cooperate with the Post-Effective Date Committee in the prosecution and defense of all Causes of Action to be brought under the Plan.

As set forth in the Statement of Financial Affairs filed by each Debtor, an aggregate of over $200 million in gross payments were made by all Debtors to third parties within the 90 days before the Petition Date. Those third parties may assert various defenses to any adversary proceedings seeking to recover those payments as preferences or fraudulent transfers. The Debtors have preliminarily requested ASK LLP to conduct an analysis of the likely amount of avoidance recoveries after defenses and litigation costs. The Debtors are analyzing other litigation against third parties, some of which will be pursued prior to the Effective Date.

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VIII.

EFFECT OF CONFIRMATION

A. Discharge

The Debtors will not receive a discharge under the Plan because the requirements of § 1141 necessary for the Debtors to receive a discharge are not present.

B. Injunctions and Stays

Existing injunctions, stays and orders in the Bankruptcy Case are generally being extended pursuant to Section 13.4 of the Plan. In addition, Section 13.6 of the Plan provides for injunctive relief as follows:

a. *General Injunction*. Except as otherwise expressly provided herein, all Persons that have held, currently hold or may hold a Claim against the Debtors are permanently enjoined on and after the Effective Date from taking any action in furtherance of such Claim or any other Cause of Action released and discharged under the Plan, including, without limitation, the following actions against any Released Party: (a) commencing, conducting or continuing in any manner, directly or indirectly, any action or other proceeding with respect to a Claim; (b) enforcing, levying, attaching, collecting or otherwise recovering in any manner or by any means, whether directly or indirectly, any judgment, award, decree or order with respect to a Claim; (c) creating, perfecting or enforcing in any manner, directly or indirectly, any lien or encumbrance of any kind with respect to a Claim; (d) asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any debt, liability or obligation due to the Debtors, the Post-Effective Date Debtors or the Liquidating Trust with respect to a Claim; or (e) commencing, conducting or continuing any proceeding that does not conform to or comply with or is contradictory to the provisions of the Plan; provided, however, that nothing in this injunction shall (i) limit the Holder of an Insured Claim from receiving the treatment set forth in Class 12; or (ii) preclude the Holders of Claims against the Debtors from enforcing any obligations of the Debtors, the Post-Effective Date Debtors, the Liquidating Trust, the Responsible Officer, or the Liquidating Trustee under the Plan and the contracts, instruments, releases and other agreements delivered in connection herewith, including, without limitation, the Confirmation Order, or any other order of the Bankruptcy Court in the Chapter 11 Cases. By accepting a distribution made pursuant to the Plan, each Holder of an Allowed Claim shall be deemed to have specifically consented to the injunctions set forth in this Section.

b. *Other Injunctions*. The Responsible Officer, the Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, the Post-Effective Date Board of Directors, or the Liquidating Trust and their respective members, directors, officers, agents, attorneys, advisors or

employees shall not be liable for actions taken or omitted in its or their capacity as, or on behalf of, the Responsible Officer, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except those acts found by Final Order to be arising out of its or their willful misconduct, gross negligence, fraud, and/or criminal conduct, and each shall be entitled to indemnification and reimbursement for fees and expenses in defending any and all of its or their actions or inactions in its or their capacity as, or on behalf of the Responsible Officer, the Post-Effective Date Board of Directors, the Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except for any actions or inactions found by Final Order to involve willful misconduct, gross negligence, fraud, and/or criminal conduct. Any indemnification claim of the Responsible Officer, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee and the other parties entitled to indemnification under this subsection shall be satisfied from either (i) the Liquidating Trust Assets (with respect to all claims, other than those claims related to the Operating Assets), or (ii) the Operating Assets (with respect to all claims related to the Operating Assets). The parties subject to this Section shall be entitled to rely, in good faith, on the advice of retained professionals, if any.

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C. Releases

Section 13.5 of the Plan contains the following releases and related provisions, which are an integral part of the Plan:

a. *Releases*. As of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, to the maximum extent permitted by law, each Holder of any Claim shall be deemed to forever release, waive, and discharge all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, against the Debtors arising from or related to the Debtors' pre- and/or post-petition actions, omissions or liabilities, transaction, occurrence, or other activity of any nature except for as provided in the Plan or the Confirmation Order.

b. *Limitations of Claims Against the Liquidating Trust*. As of the Effective Date, except as provided in the Plan or the Confirmation Order, all Persons shall be precluded from asserting against the Liquidating Trust any other or further Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, relating to the Debtors or any Interest in the Debtors based upon any acts, omissions or liabilities, transaction, occurrence, or other activity of any nature that occurred prior to the Effective Date.

c. *Debtors' Releases*. Pursuant to § 1123(b), and except as otherwise specifically provided in the Plan, for good and valuable consideration,

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including the service of the Released Parties to facilitate the expeditious liquidation of the Debtors and the consummation of the transactions contemplated by the Plan, on and after the Effective Date, the Released Parties are deemed released and discharge by the Debtors and their Estates from any and all claims, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative claims asserted or assertable on behalf of the Debtors, whether known or unknown, foreseen, or unforeseen, existing or herein after arising in law, equity, or otherwise, that the Debtors or their Estates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the Holder of any Claim or other Person, based on or relating to, or in any manner arising from, in whole or in part, the Chapter 11 Cases, the transactions or events giving rise to any Claim that is treated in the Plan, the business or contractual arrangements between the Debtors and any Released Party, the restructuring of Claims before or during the Chapter 11 Cases, the marketing and the sale of Assets of the Debtors, the negotiation, formulation, or preparation of the Plan, the Disclosure Statement, or any related agreements, instruments, or other documents, other than a Claim against a Released Party arising out of the gross negligence or willful misconduct of any such person or entity.

WAIVER OF LIMITATIONS ON RELEASES. THE LAWS OF SOME STATES (FOR EXAMPLE, CALIFORNIA CIVIL CODE § 1542) PROVIDE, IN WORDS OR SUBSTANCE, THAT A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER DECISION TO RELEASE. THE RELEASING PARTIES IN SECTIONS 13.5 (a)-(c) OF THE PLAN ARE DEEMED TO HAVE WAIVED ANY RIGHTS THEY MAY HAVE UNDER SUCH STATE LAWS AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

D. Exculpations

To the maximum extent permitted by applicable law, each Released Party and Bond and Notes Trustee shall not have or incur any liability for any act or omission in connection with, related to, or arising out of the Chapter 11 Cases (including, without limitation, the filing of the Chapter 11 Cases), the marketing and the sale of Assets of the Debtors, the Plan and any related documents (including, without limitation, the negotiation and consummation of the Plan, the pursuit of the Effective Date, the administration of the Plan, or the property to be distributed under the Plan), or each Released Party's or Bond and Notes Trustee's exercise or discharge of any powers and duties set forth in the Plan, except with respect to the actions found by Final Order to constitute willful misconduct, gross negligence, fraud, or criminal conduct, and, in all respects, each Released Party

and Bond and Notes Trustee shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. Without limitation of the foregoing, each such Released Party and Bond and Notes Trustee shall be released and exculpated from any and all Causes of Action that any Person is entitled to assert in its own right or on behalf of any other Person, based in whole or in part upon any act or omission, transaction, agreement, event or other occurrence in any way relating to the subject matter of Section 13.7 of the Plan.

E. Termination of All Employee, Retiree and Workers Compensation Benefits

All ongoing employee benefits, retiree benefits and workers' compensation benefits will be deemed rejected pursuant to § 365 as of the Effective Date.

F. U.S. Trustee Quarterly Fees and Post-Confirmation Status Report

All fees payable under 28 U.S.C. § 1930(a)(6) shall be paid by each Debtor in the amounts and at the times such fees may become due up to and including the Effective Date. The Liquidating Trust shall pay all fees payable by each Debtor under 28 U.S.C. § 1930(a)(6) until the Chapter 11 Cases are closed, dismissed or converted; provided, however, that the Sale-Leaseback Debtors will pay all fees payable under 28 U.S.C. § 1930(a)(6) in their respective Chapter 11 Cases in accordance with the Operating Budget and until the expiration of the Interim Agreements. Upon the Effective Date, the Liquidating Trust and the Post-Effective Date Debtors shall be relieved from the duty to make the reports and summaries required under Bankruptcy Rule 2015(a). Notwithstanding the foregoing, the Liquidating Trust and Post-Effective Date Debtors shall file and serve the status reports required by Local Bankruptcy Rule 3020-1(b) at such times and for such period as may be set forth in the Confirmation Order.

G. Retention of Jurisdiction

Unless otherwise provided in the Plan or the Confirmation Order, on and after the Effective Date, the Bankruptcy Court shall retain jurisdiction over all matters arising in, arising under, or related to the Chapter 11 Cases. Without limiting the foregoing, the Bankruptcy Court shall retain jurisdiction to:

(a) allow, disallow determine, liquidate, classify, estimate, or establish the priority or secured or unsecured status of any Claim, including the resolution of any request for payment of any Administrative Claim and the resolution of any objections to the allowance or priority of

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Claims, and the resolution of any claim objections brought by the Debtors or by the Liquidating Trustee on behalf of the Liquidating Trust;

(b) resolve any matters related to the assumption, assumption and assignment, or rejection of any Executory Agreement to which a Debtor(s) is a party and to hear, determine and, if necessary, liquidate, any Claims arising from, or cure amounts related to, such assumption or rejection;

(c) determine any motion, adversary proceeding, application, contested matter, and other litigated matter pending on or commenced after the Effective Date, including, without limitation, any and all Causes of Action preserved under the Plan commenced prior to, on, or after the Effective Date;

(d) ensure that distributions to holders of Allowed Claims are accomplished in accordance with the Plan;

(e) hear and determine matters relating to claims with respect to the Debtors' director and officer insurance;

(f) enter, implement or enforce such orders as may be appropriate in the event that the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

(g) issue injunctions, enter and implement other orders, and take such other actions as may be necessary or appropriate to restrain interference by any Person with the consummation, implementation or enforcement of the Plan, the Confirmation Order or any other order of the Bankruptcy Court, including, without limitation, any actions relating to the Nonprofit Status of the Post-Effective Date Debtors;

(h) resolve a dispute with respect to and/or otherwise appoint a replacement of the Responsible Officer or the Liquidating Trustee, or replacement members of the Post-Effective Date Committee;

(i) hear and determine any application to modify the Plan in accordance with § 1127, to remedy any defect or omission or reconcile any inconsistency in the Plan, the Disclosure Statement, any contract, instrument, release, or other agreement or document created in connection therewith, or any order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

(j) hear and determine all applications under §§ 330, 331, and 503(b) for awards of compensation for services rendered and reimbursement of expenses incurred prior to the Effective Date;

(k) hear and determine disputes arising in connection with the interpretation, implementation, obligation or enforcement of the Plan, the Confirmation Order, any transactions or payments contemplated in the Plan, or any agreement, instrument, or other document governing or relating to any of the foregoing;

(l) take any action and issue such orders as may be necessary to construe, enforce, implement, execute and consummate the Plan, including all contracts, instruments, releases, and

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other agreements or documents created in connection therewith, or to maintain the integrity of the Plan following consummation;

(m) determine such other matters and for such other purposes as may be provided in the Plan and/or the Confirmation Order;

(n) hear and determine matters concerning state, local, and federal taxes in accordance with §§ 346, 505, and 1146, including without limitation, (i) any requests for expedited determinations under § 505(b) filed, or to be filed, with respect to tax returns for any and all taxable periods ending after the Petition Date through, and including, the date of final distribution under the Plan, and (ii) any other matters relating to the Nonprofit Status of the Post-Effective Date Debtors;

(o) hear and determine any other matters related hereto and not inconsistent with the Bankruptcy Code and Title 28 of the United States Code;

(p) authorize recovery of all assets of any of the Debtors and property of the applicable Debtor's Estate, wherever located;

(q) consider any and all claims against each Released Party involving or relating to the administration of the Chapter 11 Cases, any rulings, orders, or decisions in the Chapter 11 Cases or any aspects of the Debtors' Chapter 11 Cases and the events leading up to the commencement of the Chapter 11 Cases, including the decision to commence the Chapter 11 Cases, the development and implementation of the Plan, the decisions and actions taken prior to or during the Chapter 11 Cases and any asserted claims based upon or related to prepetition obligations of the Debtors for the purpose of determining whether such claims belong to the Estates or third parties. In the event it is determined that any such claims belong to third parties, then, subject to any applicable subject matter jurisdiction limitations, the Bankruptcy Court shall have exclusive jurisdiction with respect to any such litigation, subject to any determination by the Bankruptcy Court to abstain and consider whether such litigation should more appropriately proceed in another forum;

(r) hear and resolve any disputes regarding the reserves required hereunder, including without limitation, disputes regarding the amounts of such reserves or the amount, allocation and timing of any releases of such reserved funds; and

(s) enter final decrees closing the Chapter 11 Cases.

IX.

TAX CONSEQUENCES OF THE PLAN

CREDITORS AND INTEREST HOLDERS CONCERNED WITH HOW THE PLAN MAY AFFECT THEIR TAX LIABILITY SHOULD CONSULT WITH THEIR OWN ACCOUNTANTS, ATTORNEYS, AND/OR ADVISORS. The following disclosure of possible tax consequences is intended solely for the purpose of alerting readers about possible tax issues the

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Plan may present to these estates. The Debtors CANNOT and DO NOT represent that the tax consequences contained below are the only tax consequences of the Plan because the Tax Code embodies many complicated rules which make it difficult to state completely and accurately all of the tax implications of any action.

X.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Generally

The following discussion summarizes certain federal[7] income tax consequences of the implementation of the Plan to the Debtors and to U.S. Holders (as defined below) of Claims. The following summary does not address the federal income tax consequences to holders whose Claims are unimpaired or otherwise entitled to payment in full in Cash under the Plan, or to holders of Claims or Interests who are deemed to reject the Plan.

The following summary is based on the Internal Revenue Code of 1986, as amended (the "IRC"), existing and proposed Treasury regulations promulgated thereunder (the "Treasury Regulations"), judicial decisions, and published administrative rules and pronouncements of the Internal Revenue Service (the "IRS"), all as in effect on the date hereof. Changes or new interpretations of these rules may have retroactive effect and could significantly affect the federal income tax consequences described below. In December 2017, the federal government enacted broad tax legislation that included significant changes to the taxation of business entities (including entities exempt from taxation under section 501(c)(3) of the IRC) affecting, among other things, the treatment of net operating losses and limitations on the deductibility of "business interest." Some aspects of this new law are not clear, and, as a result, we cannot assure you that such change in law does not impact the tax considerations that we describe in this summary.

The federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors have not requested an opinion of counsel with respect to any of the tax aspects of the Plan. In addition, the Debtors have not requested a ruling from the IRS concerning

[7] All references to "federal" taxes refer to tax obligations imposed by the United States of America.

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the federal income tax consequences of the Plan, and the consummation of the Plan is not conditioned upon the issuance of any such ruling. Thus, no assurance can be given as to the interpretation that the IRS or a court of law will adopt.

This summary does not address state, local or non-United States income or other tax consequences of the Plan, nor does it address the federal income tax consequences of any transaction that may be entered into prior to, concurrently with or subsequent to the Plan (regardless of whether any such transaction is undertaken in connection with the Plan). In addition, this summary does not purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as former citizens or long-term residents of the United States pursuant to sections 877 or 877A of the IRC, governmental entities, broker-dealers, banks, mutual funds, insurance companies, financial institutions, thrifts, small business investment companies, regulated investment companies, real estate investment trusts, tax-exempt entities other than the Debtors, as applicable, persons whose functional currency is not the U.S. dollar or persons holding a Claim as part of a hedging, straddle, conversion or constructive sale transaction or other integrated investments, persons subject to section 451(b) of the IRC, traders in securities that elect to use a mark-to-market method of accounting for their security holding, pass-through entities (or arrangements classified as pass-through entities) or investors in pass-through entities). **Accordingly, the following summary is for informational purposes only and is not a substitute for careful tax planning and professional advice based upon the particular circumstances pertaining to a holder of a Claim or Interest.**

As used in this section, the term "U.S. Holder" means a beneficial owner of a Claim (as determined for federal income tax purposes) that is: (a) a citizen or an individual resident of the United States; (b) a corporation (or an entity taxable as a corporation for federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision of the United States; (c) an estate the income of which is subject to federal income taxation regardless of its source; or (d) a trust which (i) is subject to the primary supervision of a court within the United States and the control of a United States fiduciary as described in section 7701(a)(30)(E)

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of the IRC or (ii) has properly elected under applicable Treasury Regulations to be treated as a United States person.

B. Certain Tax Consequences to the Debtors

1. Generally

Each Debtor is a nonprofit corporation that is exempt from federal income taxation under section 501(c)(3) of the IRC. It is intended that nothing in the Plan shall adversely affect, or be interpreted inconsistently with, the tax-exempt status of Post-Effective Date Debtors, and the Plan provides that each Post-Effective Date Debtors will retain its tax-exempt status to the same extent such status existed immediately prior to the Petition Date. Accordingly, the Debtors do not expect the implementation of the Plan to have any adverse federal income tax consequences to the tax-exempt status of Post-Effective Date Debtors. If the tax-exempt status of a Post-Effective Date Debtors were to terminate, the Post-Effective Date Debtors would be subject to tax on its income, which would reduce the amount of distributions payable to the Liquidating Trust. This summary assumes that that the Debtors are and will continue to be exempt from federal income tax under section 501 of the IRC.

Organizations that are otherwise exempt from federal income tax under section 501 of the IRC are nevertheless subject to tax on their "unrelated business taxable income" ("UBTI"). UBTI is generally defined as gross income from any unrelated trade or business regularly carried on by a tax-exempt entity less any deductions attributable thereto. An unrelated trade or business consists of any trade or business the conduct of which is not substantially related to the organization's exempt purpose or function.

UBTI includes unrelated debt-financed income ("UDFI"). UDFI includes income derived from debt-financed property during the taxable year and may include income derived from a sale or other disposition of debt-financed property if there was acquisition indebtedness outstanding with respect to such property during the 12-month period ending with the date of sale or other disposition. Acquisition indebtedness generally includes any debt incurred directly or indirectly to purchase such property. Thus, to the extent that a tax-exempt directly or indirectly (including through an investment in a partnership or other entity (or arrangement) which is treated as a pass-

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through entity for federal income tax purposes) has income from a trade or business, or earns income in respect of certain leveraged investments, a tax-exempt partner's allocable share of such income generally will be treated as UBTI.

If the Debtors retain their tax-exempt status and any of their assets are regarded as UDFI (which generally would not include property substantially all the use of which is substantially related to the exercise or performance by Post-Effective Date Debtors of the purpose or function constituting the basis for its tax-exempt status), Post-Effective Date Debtors may be subject to tax on a percentage of the income (including gain) derived from such assets.

2. Gain or Loss on Sale or Exchange

Under the IRC, a taxpayer must recognize and include in gross income gain on the sale or exchange of assets equal to the excess of the amount realized therefrom over the adjusted basis of the assets. The transfer of assets, in payment and discharge of recourse indebtedness is treated as a sale or exchange of such assets.

Each Debtor is exempt from U.S. federal income taxation under section 501(c)(3) of the IRC. Gain realized and recognized in a transfer of assets in payment and discharge of recourse indebtedness would be exempt from U.S. federal income taxation.

Each Debtor is also subject to tax on UBTI. Gain on the sale of assets other than property includable in inventory or held primarily for sale to customers in the ordinary course of business is excluded from UBTI under the IRC. Gain on the sale of assets includable in inventory or held primarily for sale to customers is included in UBTI, and is subject to tax.

In addition, gain on the sale or exchange of debt-financed property is included in UDFI, and so includable in UBTI, and subject to tax.

3. Cancellation of Debt Income

Under the IRC, a taxpayer generally must include in gross income the amount of any cancellation of indebtedness ("COD") income recognized during the taxable year. COD income generally equals the excess of the adjusted issue price of the indebtedness discharged over the sum of (i) the amount of cash, (ii) the issue price of any new debt, and (iii) the fair market value of any other property transferred by the debtor in satisfaction of such discharged indebtedness (including

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stock). COD income also includes any interest that has been previously accrued and deducted but remains unpaid at the time the indebtedness is discharged.

The IRC permits a debtor in bankruptcy to exclude its COD income from gross income if the discharge occurs in a bankruptcy case ("Bankruptcy Exception") or to the extent that the debtor is insolvent at the time of the discharge ("Insolvency Exception"), either of which should apply to exclude any COD income from taxation in these Chapter 11 Cases.

The same analysis applies to UBTI and UDFI. Income excluded from gross income under the Bankruptcy Exception or Insolvency Exception for income tax purposes is also excluded from gross income for UBTI and UDFI purposes. Accordingly, either the Bankruptcy Exception or the Insolvency Exception should apply to exclude any UBTI or UDFI from taxation.

C. Certain Tax Consequences to the U.S. Holders of Claims

1. Gain or Loss

In general, each U.S. Holder of a Claim will recognize gain or loss equal to the difference, if any, between (i) the "amount realized" by such holder in satisfaction of its Claim (other than amounts, if any, paid in respect of any Claim for accrued but unpaid interest and other than any amounts treated as imputed interest as further described below), and (ii) such holder's adjusted tax basis in its Claim (other than any Claim for accrued but unpaid interest). A U.S. Holder's "amount realized" generally will equal the sum of Cash (including, for the avoidance of doubt Cash received, if any, in lieu of credit monitoring services) and fair market value of the undivided interest in the Liquidating Trust Assets received by such holder. Pursuant to an IRS Announcement, the value of the receipt of credit monitoring services at the sole cost of the Debtors shall not be included in the gross income of such recipients. For a discussion of the federal income tax consequences to U.S. Holders of any Claim for accrued but unpaid interest, see below. A U.S. Holder's tax basis in a Claim should generally equal the amount advanced to the applicable Debtor(s) or an amount included in income as a result of provision of goods or services to the applicable Debtor(s), except to the extent that a bad debt loss had been previously taken.

As discussed below (*see* "Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests"), the Liquidating Trust is intended to be treated as a "grantor trust" for federal

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income tax purposes, of which the holders of Allowed Claims, whether Allowed on or after the Effective Date, are the grantors. Accordingly, each holder of an Allowed Claim is intended to be treated and, pursuant to the Plan and the Liquidating Trust Agreement, is required to report for federal income tax purposes, as directly receiving, and as a direct owner of, its respective share of the Liquidating Trust Assets, except as otherwise discussed below (*see* "Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests"). Pursuant to the Plan and Liquidating Trust Agreement, the Liquidating Trustee will make a good faith valuation of the Liquidating Trust Assets, and all parties must consistently use such valuation for all federal income tax purposes.

It is possible that a U.S. Holder of an Allowed Claim may be treated for tax purposes as receiving additional distributions subsequent to the Effective Date as a result of (i) additional contributions made by Post-Effective Date Debtors to the Liquidating Trust and/or (ii) any subsequently disallowed Disputed Claims or unclaimed distributions. In that event, the U.S. Holder may be treated as having received additional amounts in respect of its Allowed Claim, and the imputed interest provisions of the IRC may apply to treat a portion of such later distributions to a U.S. Holder as imputed interest. In addition, it is possible that any loss realized by a U.S. Holder in satisfaction of an Allowed Claim may be deferred until all subsequent distributions are determinable.

Except as otherwise noted above, after the Effective Date, any amount a U.S. Holder of an Allowed Claim receives as a distribution from the Liquidating Trust in respect of its beneficial interest in the Liquidating Trust should not be included, for federal income tax purposes, in the holder's amount realized in respect of its Allowed Claim since such holder would already be regarded for federal income tax purposes as owning the underlying assets (and would already have realized any associated income). *See* "Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests" *infra*.

Where gain or loss is recognized by a U.S. Holder in respect of its Allowed Claim, the character of such gain or loss as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including, among others, the nature and origin of the Claim, the tax status of the U.S. Holder, whether the Claim constitutes a capital asset in the

hands of the U.S. Holder and how long it has been held, and whether and to what extent the U.S. Holder had previously claimed a bad debt deduction in respect of such Claim. A U.S. Holder that purchased its Claim from a prior holder at a market discount may be subject to the market discount rules of the IRC. Under those rules, assuming that such holder has made no election to amortize the market discount into income on a current basis with respect to any market discount instrument, any gain recognized on the exchange of such Claim (subject to a *de minimis* rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such Claim as of the date of the exchange.

2. Distributions in Discharge of Accrued Interest or OID

Pursuant to the Plan, all distributions in respect of any Claim will be allocated first to the principal amount of such Claim, as determined for U.S. federal income tax purposes, and thereafter, to the remaining portion of such Claim (including the interest portion thereof), if any. Current federal income tax law is unclear on this point, and no assurance can be given that the IRS will not challenge the Debtors' position. Holders of Claims are urged to consult their own tax advisors regarding the particular federal income tax consequences to them of the treatment of accrued but unpaid interest or original issue discount ("OID"), as well as the character of any loss claimed with respect to accrued but unpaid interest previously included in gross income.

In general, to the extent that any distribution to a U.S. Holder of a Claim is received in satisfaction of interest or OID accrued or amortized during the time such holder held the Claim, such amount will, unless exempt pursuant to special rules under the IRC, be taxable to such holder as interest income (if not previously included in such holder's gross income). Conversely, a U.S. Holder will generally recognize a deductible ordinary loss to the extent of any Claim for accrued interest that previously was included in its gross income and that is not paid in full. However, the treatment of unpaid OID that was previously included in income is less clear. The IRS has privately ruled that a holder of a debt obligation in an otherwise tax-free exchange could not claim a current deduction with respect to any unpaid OID. Accordingly, it is possible that, by analogy, a holder of a Claim in a taxable exchange would be required to recognize a capital loss, rather than an ordinary loss, with respect to any previously included OID that is not paid in full. Holders are urged to

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consult their tax advisors regarding the allocation of consideration and the deductibility of accrued but unpaid interest or OID for federal income tax purposes.

3. Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests

Upon the Effective Date, the Liquidating Trust will be established for the benefit of the holders of Allowed Unsecured Claims, whether Allowed on or after the Effective Date.

The Liquidating Trust is intended to qualify as a liquidating trust for U.S. federal income tax purposes. In general, a liquidating trust is not a separate taxable entity, but rather is treated for federal income tax purposes as a "grantor trust" (*i.e.*, a pass-through entity), such that the holders of beneficial interests therein are treated as owning an undivided interest in the assets of the trust. However, merely establishing a trust as a liquidating trust does not ensure that it will be treated as a grantor trust for federal income tax purposes. The IRS, in Revenue Procedure 94-45, 1994-2 C.B. 684 ("Rev. Proc. 94-45"), set forth the general criteria for obtaining an IRS ruling as to the grantor trust status of a liquidating trust under a chapter 11 plan. The Liquidating Trust will be structured with the intention of complying with such general criteria. Pursuant to the Plan and Liquidating Trust Agreement, and in conformity with Rev. Proc. 94-45, all parties are required to treat, for federal income tax purposes, the Liquidating Trust (except in respect of any Liquidating Trust Assets allocable to Disputed Claims) as a grantor trust of which the beneficiaries of the Liquidating Trust are the owners and grantors. The discussion herein assumes that the Liquidating Trust will be so respected for federal income tax purposes. However, no ruling has been requested from the IRS, and no opinion of counsel has been requested concerning the tax status of the Liquidating Trust as a grantor trust. Accordingly, there can be no assurance that the IRS would not take a contrary position. Were the IRS to successfully challenge the trust classification (including because Post-Effective Date Debtors have the continuing obligation to make additional contributions to the Liquidating Trust), the federal income tax consequences to the Liquidating Trust and the U.S. Holders of Claims may vary significantly from those discussed herein, including the potential for an entity level tax on any income of the Liquidating Trust. Holders of Allowed Claims are urged to consult with their tax advisors regarding potential alternative characterizations.

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a. General Tax Reporting by the Liquidating Trustee and Beneficiaries of the Liquidating Trust

For all federal income tax purposes, all parties must treat each transfer of Liquidating Trust Assets to the Liquidating Trust in accordance with the terms of the Plan.

Pursuant to the Plan and Liquidating Trust Agreement, each transfer of Liquidating Trust Assets (other than any assets allocable to Disputed Claims) to the Liquidating Trust is treated, for federal income tax purposes, as (i) a transfer of such assets directly to the holders of Claims that constitute beneficiaries of the Liquidating Trust in partial satisfaction of their Claims (with each beneficiary of the Liquidating Trust receiving an undivided interest in such assets in accordance with their economic interests in such assets), followed by (ii) the transfer by the beneficiaries of the Liquidating Trust to the Liquidating Trust of such assets in exchange for the beneficial interests in the Liquidating Trust. Accordingly, all parties must treat the Liquidating Trust as a grantor trust, of which the beneficiaries of the Liquidating Trust are the owners and grantors, and treat the beneficiaries of the Liquidating Trust as the direct owners of an undivided interest in Liquidating Trust Assets (other than any assets allocable to Disputed Claims), consistent with their economic interests therein, for all federal income tax purposes. The economic interests of U.S. Holders of Unsecured Claims will be determined with respect to their interest in the Unsecured Claims Fund (other than any assets allocable to the reserve for Disputed Unsecured Claims). It is unclear whether a U.S. Holder of an Unsecured Claim will be required to treat cash distributed from the Disputed Claims Reserve to the Unsecured Claims Fund (other than assets allocated to the reserve for Disputed Unsecured Claims) (x) as an additional "amount realized" with respect to its Claim, thereby resulting in additional gain (or reduced loss) on its Claim at such time, or (y) an "amount realized" with respect to its interest in the Liquidating Trust.

Pursuant to the Plan and Liquidating Trust Agreement, the Liquidating Trustee will make a good faith valuation of the Liquidating Trust Assets. All parties must consistently use such valuation for all federal income tax purposes.

Allocations of the Liquidating Trust's taxable income (other than income attributable to assets in the Disputed Claims Reserve or reserve for Disputed Unsecured Claims) among the

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beneficiaries of the Liquidating Trust shall be determined by reference to the manner in which an amount of Cash equal to such taxable income would be distributed (without regard to any restrictions on distributions) if, immediately prior to such deemed distribution, the Liquidating Trust had distributed all of its other assets (valued at their tax book value and other than assets allocable to Disputed Claims) to the beneficiaries of the Liquidating Trust, in each case up to the tax book value of the assets treated as contributed by such beneficiaries of the Liquidating Trust, adjusted for prior taxable income and loss and taking into account all prior and concurrent distributions from the Liquidating Trust. Similarly, taxable loss of the Liquidating Trust shall be allocated by reference to the manner in which an economic loss would be borne immediately after a liquidating distribution of the remaining Liquidating Trust Assets. The tax book value (or tax basis) of the Liquidating Trust Assets for this purpose shall equal their fair market value on the date such assets are transferred to the Liquidating Trust, adjusted in accordance with tax accounting principles prescribed by the IRC, applicable Treasury regulations, and other applicable administrative and judicial authorities and pronouncements.

Taxable income or loss allocated to a beneficiary of the Liquidating Trust will be treated as income or loss with respect to such beneficiary's undivided interest in the Liquidating Trust Assets, and not as income or loss with respect to its prior Allowed Claim. The character of any income and the character and ability to use any loss will depend on the particular situation of the beneficiary of the Liquidating Trust.

The federal income tax obligations of a beneficiary of the Liquidating Trust are not dependent on the Liquidating Trust distributing any Cash or other proceeds. Therefore, a beneficiary of the Liquidating Trust may incur a federal income tax liability with respect to its allocable share of Liquidating Trust income even if the Liquidating Trust does not make a concurrent distribution to the beneficiary of the Liquidating Trust. In general, other than in respect of Liquidating Trust Assets allocable to Disputed Claims, a beneficiary of the Liquidating Trust should not be separately taxable on a distribution from the Liquidating Trust since the beneficiary of the Liquidating Trust already is regarded for federal income tax purposes as owning the

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underlying assets (and was taxed at the time the income was earned or received by the Liquidating Trust).

The Liquidating Trustee will file with the IRS returns for the Liquidating Trust as a grantor trust pursuant to Treasury Regulation section 1.671-4(a). The Liquidating Trustee also shall annually send to each beneficiary of the Liquidating Trust a separate statement setting forth the holder's share of items of income, gain, loss, deduction, or credit and will instruct all of the beneficiaries of the Liquidating Trust to report such items on their federal income tax returns or to forward the appropriate information to such beneficiary's underlying beneficial holders with instructions to report such items on their U.S. federal income tax returns.

b. Tax Treatment of the Disputed Claims Reserve and Reserve for Disputed Unsecured Claims

The Liquidating Trustee shall (x) treat the Disputed Claims Reserve and the reserve for Disputed Unsecured Claims as "disputed ownership funds" governed by Treasury Regulation section 1.468B-9 by timely making an election, and (y) to the extent permitted by applicable law, report consistently with the foregoing for state and local income tax purposes.

The Disputed Claims Reserve and the reserve for Disputed Unsecured Claims will be subject to tax annually on a separate entity basis on any net income earned with respect to the Liquidating Trust Assets allocable thereto. A disputed ownership fund is taxed in a manner similar to either a corporation or a "qualified settlement fund," within the meaning of applicable Treasury Regulations, depending on the nature of the assets transferred to it. It is expected that the Disputed Claims Reserve and the reserve for Disputed Unsecured Claims will be taxed as qualified settlement funds (taxable at the maximum rate applicable to trusts and estates, currently 37%) because all of the assets transferred to them should be treated as passive assets. All distributions from either the Disputed Claims Reserve or the reserve for Disputed Unsecured Claims to U.S. Holders of Allowed Claims (which distributions will be net of the related expenses of the reserve) will be treated as received by such holders in respect of their Claims as if distributed by the Debtors. All parties will be required to report for tax purposes consistently with the foregoing.

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Holders of Allowed Claims should consult their tax advisors with respect to the U.S. federal income tax consequences of becoming a beneficiary of the Liquidating Trust.

D. Information Reporting and Withholding

All distributions to holders of Allowed Claims under the Plan are subject to any applicable withholding obligations (including employment tax withholding, if any). Under federal income tax law, interest, dividends, and other reportable payments may, under certain circumstances, be subject to "backup withholding" at the then-applicable rate (currently 24%). Backup withholding generally applies if the holder: (i) fails to furnish its social security number or other taxpayer identification number ("TIN"); (ii) furnishes an incorrect TIN; (iii) fails properly to report interest or dividends; or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is such holder's correct number and that such holder is a United States person that is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

In addition, from an information reporting perspective, applicable Treasury Regulations generally require disclosure by a taxpayer on its federal income tax return of certain types of transactions in which the taxpayer participated, including, among others, certain transactions that result in the taxpayer's claiming a loss in excess of specified thresholds. Holders are urged to consult their tax advisors regarding these regulations and whether the transactions contemplated by the Plan would be subject to these Treasury Regulations and require disclosure on the holders' federal income tax returns.

E. Importance of Obtaining Professional Tax Assistance

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN, AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY

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VARY DEPENDING ON A HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS ABOUT THE FEDERAL, STATE, LOCAL AND NON-UNITED STATES INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

XI.

SECURITIES LAW DISCUSSION RELATED TO TRUST BENEFICIAL INTERESTS

The Trust Beneficial Interests are not expected to be deemed "securities" within the meaning of the federal securities laws, including the Securities Act of 1933 (the "1933 Act"), and the distribution of the Trust Beneficial Interests will not be registered under the 1933 Act. The Liquidating Trust will not be registered or reporting under either the Securities Exchange Act of 1934 (the "1934 Act") or under the Investment Company Act of 1940 (the "1940 Act"). The Liquidating Trust Agreement provides that the Trust Beneficial Interests may not be assigned or otherwise transferred by any holder other than: (i) to any relative, spouse or relative of the spouse of such holder; (ii) by will or pursuant to the laws of descent and distribution; and (iii) upon the dissolution of such holder in accordance with the operation of law; provided, that any such transfer will not be effective until and unless the Liquidating Trustee receives written notice of such transfer. No beneficiary may subdivide beneficial interests in the Liquidating Trust except as set forth in the prior sentence.

There is not expected to be any trading market created in Trust Beneficial Interests, and the Trust Beneficial Interests will have extremely limited or no liquidity. Pursuing Causes of Action in the Liquidating Trust and liquidating assets placed in the Liquidating Trust may take several years, and distributions, if any, from the Liquidating Trust will be over time.

The Trust Beneficial Interests are not expected to be deemed "securities" within the meaning of the federal securities laws, however, if they were to be deemed securities, we believe that the distribution of the Trust Beneficial Interests to holders will be exempt from registration under § 1145. Similarly, in the unlikely event that the Trust Beneficial Interests are deemed "securities", we believe that the Trust Beneficial Interests will not be required to be registered under Section 12(g) of the 1934 Act because we expect that there will be no more than 2,000 total holders

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of such interest and no more than 500 of such holders who do not qualify as "accredited investors" within the meaning of the 1933 Act. In addition, as noted above, there is effectively no secondary market or any trading market for the interest, and they will not be listed on any stock exchange or tradable on any other trading system or platform. We understand that the assets themselves of the trust are also not likely to be deemed "securities" within the meaning of the federal securities laws. However, in the unlikely event that any assets of the trusts would be securities, we believe that no more than 40% of the assets would be deemed securities, and, if so, the trust would not be deemed an "investment company" under Section 3(a)(1)(C) of the 1940 Act. In the extremely unlikely event that 40% or more of the trust's assets would be deemed securities, we believe that the trust would not be required to register as an "investment company" in reliance on Section 7(b) of the 1940 Act in as much as the trusts' activities are and will be incidental to its dissolution.

The holders of the Trust Beneficial Interest under the Plan are expected to be the PBGC, RPHE and General Unsecured Creditors with Claims which ultimately are allowed above the threshold for Convenience Class treatment.

XII.

CONFIRMATION REQUIREMENTS AND PROCEDURES

PERSONS OR ENTITIES CONCERNED WITH CONFIRMATION OF THE PLAN SHOULD CONSULT WITH THEIR OWN ATTORNEYS BECAUSE THE LAW ON CONFIRMING A CHAPTER 11 PLAN IS VERY COMPLEX. The following discussion is intended solely for the purpose of alerting readers about basic confirmation issues, which they may wish to consider, as well as certain deadlines for filing claims. The Debtors CANNOT and DO NOT represent that the discussion contained below is a complete summary of the law on this topic.

Many requirements must be met before the Court can confirm a plan. Some of the requirements include that the plan must be proposed in good faith, acceptance of the plan, whether the plan pays creditors at least as much as creditors would receive in a chapter 7 liquidation, and whether the plan is feasible. These requirements are not the only requirements for confirmation.

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A. Who May Vote or Object

Any party in interest may object to the confirmation of the Plan, but, as explained below, not everyone is entitled to vote to accept or reject the Plan.

B. Who May Vote to Accept or Reject the Plan

A creditor or interest holder has a right to vote for or against the Plan if that creditor or interest holder has a claim or interest which is both (1) allowed or allowed for voting purposes and (2) classified in an impaired class.

C. What Is an Allowed Claim or Interest

As noted above, a creditor or interest holder must first have an allowed claim or interest to have the right to vote. Generally, any proof of claim or interest will be allowed, unless a party in interest files an objection to the claim or interest. When an objection to a claim or interest is filed, the creditor or interest holder holding the claim or interest cannot vote unless the Bankruptcy Court, after notice and hearing, either overrules the objection or allows the claim or interest for voting purposes.

THE BAR DATE FOR FILING A PROOF OF CLAIM IN THESE CASES ON ACCOUNT OF PREPETITION CLAIMS WAS APRIL 1, 2019. A creditor or interest holder may have an allowed claim or interest even if a proof of claim or interest was not timely filed. A claim is deemed allowed if (1) it is scheduled on the Debtors' schedules and such claim is not scheduled as disputed, contingent, or unliquidated, and (2) no party in interest has objected to the claim. An interest is deemed allowed if it is scheduled and no party in interest has objected to the interest.

D. What Is an Impaired Claim or Interest

As noted above, an allowed claim or interest has the right to vote only if it is in a class that is impaired under the Plan. A class is impaired if the Plan alters the legal, *equitable*, or contractual rights of the members of that class. For example, a class comprised of general unsecured claims is impaired if the Plan fails to pay the members of that class 100% of what they are owed.

The Debtors believe that members of classes 2 through 13 are impaired and are entitled to vote to accept or reject the Plan. Parties who dispute the Debtors' characterization of their claim

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or interest as being impaired or unimpaired may file an objection to the Plan contending that the Debtors have incorrectly characterized the class.

E. Who Is Not Entitled to Vote

The following four types of claims are not entitled to vote: (1) claims that have been disallowed; (2) claims in unimpaired classes; (3) claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8); and (4) claims in classes that do not receive or retain any value under the Plan (Classes 14 and 15). Claims in unimpaired classes are not entitled to vote because such classes are deemed to have accepted the Plan. Claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) are not entitled to vote because such claims are not placed in classes and they are required to receive certain treatment specified by the Bankruptcy Code. Claims in classes that do not receive or retain any value under the Plan do not vote because such classes are deemed to have rejected the Plan. EVEN IF YOUR CLAIM IS OF THE TYPE DESCRIBED ABOVE, YOU MAY STILL HAVE A RIGHT TO OBJECT TO THE CONFIRMATION OF THE PLAN.

F. Who Can Vote in More Than One Class

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim is entitled to accept or reject the Plan in both capacities by casting one ballot for the secured part of the claim and another ballot for the unsecured claim.

G. Votes Necessary to Confirm the Plan

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by "cramdown" on non-accepting classes, as discussed below.

H. Votes Necessary for a Class to Accept the Plan

A class of claims is considered to have accepted the Plan when more than one-half (1/2) in number and at least two-thirds (2/3) in dollar amount of the claims which actually voted on the plan, voted in favor of the plan. A class of interests is considered to have "accepted" a plan when at least two-thirds (2/3) in amount of the interest-holders of such class which actually voted on the plan, voted to accept the plan.

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I. Treatment of Non-Accepting Classes

As noted above, even if all impaired classes do not accept the Plan, the Court may nonetheless confirm the Plan if the non-accepting classes are treated in the manner required by the Bankruptcy Code. The process by which non-accepting classes are forced to be bound by the terms of a plan is commonly referred to as "cramdown." The Bankruptcy Code allows the Plan to be "crammed down" on non-accepting classes of claims or interests if it meets all consensual requirements except the voting requirements of § 1129(a)(8) and if the Plan does not "discriminate unfairly" and is "fair and equitable" toward each impaired class that has not voted to accept the Plan as referred to in § 1129(b) and applicable case law.

J. Request for Confirmation Despite Non-Acceptance by Impaired Class(es)

The Debtors will ask the Bankruptcy Court to confirm the Plan by cramdown on any and all impaired classes that do not vote to accept the Plan. However, it must be noted that the Debtors are, in large part, nonprofits, and, therefore, the applicability of the "absolute priority rule" is unclear. Some courts seemingly have concluded that the structural limitations of nonprofits render the absolute priority rule categorically inapplicable without the need for a fact-specific analysis of the ownership structure at issue. *See, e.g.*, *In re Henry Mayo Newhall Mem'l Hosp.*, 282 B.R. 444, 453 (B.A.P. 9th Cir. 2002) ("[T]he Hospital's nonprofit status puts creditors in an unusually disadvantaged negotiating position because they are not able to assert the Bankruptcy Code's absolute priority rule to block unacceptable plans . . . ."); *In re Independence Vill., Inc.*, 52 B.R. 715, 726 (Bankr. E.D. Mich. 1985) ("[The debtor] is a non-profit corporation. It has no shareholders, hence there are no interests inferior to the unsecured creditors. Thus there should be little difficulty with the absolute priority rule . . . .") (citations omitted).

K. Liquidation Analysis

Another confirmation requirement is the "Best Interest Test", which requires a liquidation analysis. Under the Best Interest Test, if a claimant or interest holder is in an impaired class and that claimant or interest holder does not vote to accept the Plan, then that claimant or interest holder must receive or retain under the Plan property of a value not less than the amount that such holder

would receive or retain if the Debtors were forced to liquidate under chapter 7 of the Bankruptcy Code.

First, it is not at all clear that this test applies in the bankruptcy of a nonprofit company. The best interest test protects creditors by setting a baseline of distributions that a proposed plan must provide to them. Unlike in the bankruptcy of a for-profit entity, the Bankruptcy Code and state law may preclude or restrict the forced sale of a nonprofit's assets. 11 U.S.C. §§ 1112(c), 303. For example, under § 1112(c), a nonprofit's creditors cannot force a nonprofit to convert its chapter 11 case to a chapter 7, nor under § 303 can they file an involuntary petition against a nonprofit. Similarly, state statute impose stringent requirements on the transfer or sale of a nonprofit debtor's assets, *see, e.g.*, CAL. CORP. CODE §§ 5913, 7913, 9633 5, and the involuntary dissolution of a nonprofit, *see, e.g.*, CAL. CORP. CODE §§ 6510-6519, 8510-8519, 9680. Accordingly, it is not at all clear that the best-interest test applies because of the above described prohibitions on forcing a nonprofit to liquidate its assets.

However, assuming that the best interests test applies to nonprofits, in a chapter 7 case, the debtor's assets are usually sold by a chapter 7 trustee. Secured creditors are paid first from the sales proceeds of properties on which the secured creditor has a lien. Administrative claims are paid next. Next, unsecured creditors are paid from any remaining sales proceeds, according to their rights to priority. Unsecured creditors with the same priority share in proportion to the amount of their allowed claim in relationship to the amount of total allowed unsecured claims. Finally, interest holders receive the balance that remains after all creditors are paid, if any.

For the Court to be able to confirm the Plan, the Court must find that all creditors and interest holders who do not accept the Plan will receive at least as much under the Plan as such holders would receive under a chapter 7 liquidation of the Debtors. The Debtors maintain that this requirement is clearly met. Simply put, in the event of a conversion of the Chapter 11 Cases to chapter 7, one or more chapter 7 trustees who are completely unfamiliar with the vast complexities of these cases would be placed in charge, and would presumably hire new professionals who are equally unfamiliar with the vast complexities of these cases. The result of all of that would be in the incurrence of an extraordinary amount of additional professional fees incurred by professionals

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who would need to familiarize themselves with these cases, all of which is avoided by the current professionals, who are skilled and already intimately familiar with these cases, continuing with their current roles. Presumably the treatment of creditors in the context of chapter 7 liquidations would be the same as they are under the Plan. Through the significant cost savings of the confirmed Plan as compared to conversion to chapter 7, holders of allowed claims will receive more under the Plan than they would receive in converted chapter 7 bankruptcies (and certainly at least as much under the Plan).

The advantages of finishing a liquidation in chapter 11 are not just "common knowledge" among professionals. Experts have also concluded that conversion to chapter 7 offers few advantages over liquidation in chapter 11: cases where the case converted from chapter 11 to chapter 7 take significantly longer to resolve than a "pure" chapter 11 liquidation, requires similar, if not greater, fees, and in the end provides creditors with statistically lower recovery rates—often zero—than a comparable Chapter 11 procedure. *See* Arturo Bris, Ivo Welch and Ning Zhu, *The Costs of Bankruptcy: Chapter 7 Liquidation versus Chapter 11 Reorganization*, 61(3) THE JOURNAL OF FINANCE 1253-1303 (Feb. 2006). As discussed in more detail in the Liquidation Analysis attached as Exhibit A hereto, the Debtors have satisfied the "best interest of creditors test" with respect to members of class who do not vote to accept the Plan. The Debtors submit that the Plan provides fair and equitable treatment of all classes of creditors and the greatest feasible recovery to all creditors.

L. Feasibility

Another requirement for confirmation involves the feasibility of the Plan, which means that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Post-Effective Date Debtors.

There are at least two important aspects of a feasibility analysis. The first aspect considers whether the Debtors will have enough cash on hand on the Effective Date to pay all the claims and expenses which are entitled to be paid on such date. Since the Debtors already have enough cash on hand to pay all the claims and expenses which are entitled to be paid on the Effective Date, this first aspect of Plan feasibility has clearly been satisfied. The second aspect considers whether the

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Post-Effective Date Debtors will have enough cash over the life of the Plan to make the required Plan payments. Since the Plan is a liquidating Plan, where all Estate funds will be distributed to holders of allowed claims, this second aspect of Plan feasibility has, by definition, been satisfied.

XIII.

RISK FACTORS REGARDING THE PLAN

Since the Plan is a liquidating Plan, the funds of the Debtors' Estates will be distributed to holders of allowed claims, there is no traditional "risk" to the ability of the Debtors to perform under the Plan. However, given the large number of uncertainties at this time, including (i) the closing of the SGM Sale, (ii) the manner in which disputed Class 10 Claims will be resolved, and (iii) the amount of net proceeds on Causes of Action which the Liquidating Trust will ultimately recover, it is not possible for the Debtors to provide any reliable estimate at this time as to the expected ultimate recovery of for Unsecured Claims.

The Plan is conditioned on the SGM Sale closing in Section 12.2 of the Plan, and the Plan will not be feasible if the SGM Sale does not close because the sale proceeds are needed to fund the Plan. Of particular note, the SGM Sale has not yet been approved by the Attorney General who is currently reviewing the SGM Sale. If the Attorney General approves the SGM Sale with conditions substantially similar to those set forth in Schedule 8.6, the Debtors anticipate the SGM sale will close. If the conditions are not substantially similar to Schedule 8.6 and SGM will not close based on those conditions, the Debtors will file a motion requesting the Court enforce the order and the original conditions under § 363 If the SGM Sale does not close, it would have other ramifications in these Cases. Among others, the Plan would need to be modified. Additionally, while the Debtors cannot predict every scenario, it is likely the Debtors may need to close SVMC and Seton due to their ongoing operating losses, which may result in them being sold as real estate for redevelopment rather than a health care. For SFMC, it is more likely that it would be sold to SGM, pursuant to an asset purchase agreement, or to an alternative buyer. There can be no assurance that the Debtors can obtain extended access to cash collateral to provide the additional liquidity or that an alternative source of financing would be available to fund operations at SFMC until an alternative deal could be negotiated and closed. Any such financing may be on different

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and more expensive and onerous terms. Any alternative sale transaction may also be subject to approval by the Attorney General who may raise similar concerns about approving any alternative transaction or buyer. Were any of the Hospitals to be closed instead of sold as a going concern, the sales proceeds in a liquidation of the Hospitals would be many millions of dollars less than under the SGM Sale, collection of receivables and fees may be reduced and delayed and there would also be substantial additional claims, including, without limitation, additional rejection damage claims, employee severance claims and other claims which are no longer being assumed or paid by SGM as buyer. Employees would also lose their jobs and the community and patients would lose access to a conveniently located safety net health care provider.

XIV.

DEEMED SUBSTANTIVE CONSOLIDATION

The Plan provides for the "deemed" substantive consolidation of the Debtors. This Disclosure Statements sets forth (i) the legal requirements to establish deemed substantive consolidation, and (ii) the factual bases supporting the Debtors' request for deemed substantive consolidation. As set forth in the Plan, this Disclosure Statement and the Plan shall be deemed a motion requesting that the Bankruptcy Court approve the deemed substantive consolidation contemplated by the Plan at the Confirmation Hearing, unless otherwise separately scheduled. Objections to the proposed deemed substantive consolidation must be made in writing on or before the deadline to object to confirmation of the Plan, or such other date as may be fixed by the Bankruptcy Court. The Bankruptcy Court will schedule a hearing with respect to timely filed objections, which the Bankruptcy Court may schedule contemporaneously with the Confirmation Hearing. The Debtors reserve all rights with respect to such objections, including, but not limited to, the right to further supplement the facts and legal analysis in support of deemed substantive consolidation as set forth in this Disclosure Statement or the Plan.

If the Bankruptcy Court determines that deemed substantive consolidation of any given Debtor is not appropriate, then the Debtors may request that the Bankruptcy Court otherwise confirm the Plan and approve the treatment of, and distributions to, the different Classes under the Plan on an adjusted, Debtor-by-Debtor basis. Furthermore, the Debtors reserve their rights (i) to

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seek confirmation of the Plan without implementing deemed substantive consolidation of any given Debtor, and, in the Debtors' reasonable discretion, to request that the Bankruptcy Court approve the treatment of and distributions to any given Class under the Plan on an adjusted, Debtor-by-Debtor basis; and (ii) to seek to substantively consolidate all Debtors into VHS if all Impaired Classes entitled to vote on the Plan vote to accept the Plan.

As will be set forth in more detail in the Debtors' brief in support of confirmation of the Plan, the Debtors believe deemed substantive consolidation is appropriate here.

A. The Effect of Deemed Substantive Consolidation

Substantive consolidation refers to the consolidation of the assets and liabilities of different legal entities "so that the assets and liabilities are dealt with as if the assets were held by, and the liabilities were owed by, a single legal entity." 1 COLLIER ON BANKRUPTCY MANUAL, ¶ 105.09[1][a] (2019). "The primary purpose of substantive consolidation 'is to ensure the equitable treatment of all creditors.'" *In re Bonham*, 229 F.3d 750, 764 (9th Cir. 2000) (quoting *In re Augie/Restivo Baking Co., Ltd.*, 860 F.2d 515, 518 (2d Cir. 1988)); *see also Bonham*, 229 F.3d at 765 ("fairness to creditors" is the "sole aim" of substantive consolidation) (citations omitted). However, "[t]he requirement to 'benefit all creditors' does not mean each and every creditor but rather the creditor body as a whole." *In re Owners Management Services LLC Trustee Corps.*, 530 B.R. 711, 739 (Bankr. C.D. Cal. 2015).

Upon entry of a substantive consolidation order, the "consolidated assets create a single fund from which all claims against the consolidated debtors are satisfied; duplicate and inter-company claims are extinguished; and, the creditors of the consolidated entities are combined for purposes of voting on reorganization plans." *Bonham*, 229 F.3d at 764 (citing *Augie/Restivo Baking Co., Ltd.*, 860 F.3d at 518).

"Deemed consolidation" is a court-developed alternative to substantive consolidation. The primary distinction between the two is that, unlike substantive consolidation, the deemed consolidation alternative will "not result in the merger of or the transfer or commingling of any assets of the Debtors . . . [which] will continue to be owned by the respective Debtors." *In re Owens Corning*, 419 F.3d 195, 202 (3d Cir. 2005) (quotations omitted). Simply put, substantive

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consolidation actually combines debtors' assets and liabilities in a singular entity whereas deemed consolidation merely treats the assets and liabilities as if they were pooled without actually merging the debtor entities.

Here, as set forth below, deemed consolidation for creditor distribution purposes is appropriate to avoid the impact consolidation of the legal entities may have on matters such as licensing and the proposed sale-leaseback of certain Hospital assets post-confirmation, as set forth in the SGM APA.

B. The Facts of the Chapter 11 Cases Satisfy Each Independent Basis for Deemed Substantive Consolidation

Courts developed the deemed consolidation analysis, which is not otherwise set forth in the Bankruptcy Code. *See Bonham*, 229 F.3d at 764 ("Although substantive consolidation was not codified . . . courts, as well as the bankruptcy rules, recognize its validity and have ordered substantive consolidation subsequent to the enactment of the Bankruptcy Code."). In the Ninth Circuit, courts conduct the deemed substantive consolidation analysis on a "case-by-case" basis following "a searching review of the record." *Bonham*, 229 F.3d at 765 (citation omitted). The Ninth Circuit's case-by-case substantive consolidation analysis focuses on two, independent factors. First, whether creditors dealt with the entities as a single economic unit, and did not rely on their separate identity in extending credit. *See id*. at 766. Second, whether the affairs of the debtor are so entangled that consolidation will benefit all creditors. *See id.* Additionally, bankruptcy courts have identified a third, un-enumerated factor that goes to the heart of the substantive consolidation analysis—whether the equities of the case demonstrate that substantive consolidation is reasonable under the circumstances. *See, e.g.*, *In re Bashas' Inc.*, 437 B.R. 874 (Bankr. D. Ariz. 2010).

The deemed substantive consolidation test is disjunctive, thus, the Debtors need only demonstrate one of these factors. *See Bonham*, 229 F.3d at 766 ("The presence of ***either*** factor is a sufficient basis to order substantive consolidation.") (emphasis added). As set forth below, the facts of these Chapter 11 Cases meet each of these factors, and demonstrate that the Debtors are entitled to the deemed substantive contemplated by the Plan.

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1. Creditors Dealt with the Debtors as a Single, Economic Unit.

a. The Conditions Addressed the Debtors as a Single Economic Unit.

The Conditions imposed by the Attorney General applied structural and operational limitations on the Debtors collectively as the Verity Health System. The Conditions were developed and imposed on the Verity Health System collectively in such a manner that required the Debtors to integrate financially. The Conditions required the Hospitals to remain general acute care hospitals, and specified the number of beds that each Hospital had to maintain for particular services. As discussed above, compliance with these stringent limitations caused extreme financial hardship for the Hospitals individually. As a result, the profitable Hospitals were required to subsidize the cash losses of the other Hospitals within the Verity Health System. Compliance with the Conditions was only possible due to the Hospitals integration in the Verity Health System.

As significant, the Conditions approved governance changes that centralized management and provided that the Debtors operate as one integrated health system—the Verity Health System. In a letter regarding the Proposed Change in Governance and Control of Daughters of Charity Health System, dated December 3, 2015, the Attorney General conditionally consented to a proposed change in governance and control of "the Daughters of Charity Health System" rather than any one Hospital. The October 2015 report prepared by MDS Consulting in connection with the BlueMountain Transaction likewise addressed VHS and its affiliates as one entity, Verity Health System. After the Conditions were imposed, the bylaws of VHS and each of the subsidiary boards vested ultimate authority over major decisions to the VHS board. Indeed, following the BlueMountain Transaction, the VHS board made major decisions that impacted the Hospitals and all of the affiliated entities. Many other decisions were made at the health system-level.

b. The Debtors Obtained Secured Financing as a Single Economic Unit.

The Debtors' secured lenders dealt with the Debtors as a single economic unit. Thus, this factor is satisfied even if the Debtors never claimed to be a singular entity. *See, e.g., In re Abeinsa Hldg., Inc.*, 562 B.R. 265, 280-81 (Bankr. D. Del. 2016) (finding creditor expectations were satisfied by partial substantive consolidation where, among other things, "[t]he lenders under these credit agreements received combined financial reports from the Debtors as to all obligors that were

parties to the applicable credit agreements, and calculated financial covenant compliance based on the assets and liabilities of those entities").

A substantial amount of the Debtors' prepetition secured debt relates to loan and bond obligations on which multiple debtors are obligated. Specifically, VHS, SFMC, SVMC, SMC, OCH, and SLRH (collectively, the "Obligated Group Members") entered into the 2005 Series A, G and H Revenue Bonds, the 2015 Revenue Notes, and the 2017 Revenue Notes (collectively, the "Obligated Bonds").

The Obligated Bonds imposed joint and several liability on the Obligated Group Members, and the terms of the Obligated Bonds only addressed the rights and obligations of the Obligated Group members collectively, rather than on a Hospital-by-Hospital basis. Specifically, the loan documents, with respect to the 2015 Revenue Notes and the 2017 Revenue Notes, provide for "unfettered use of the funds loaned with respect to any of" the Obligated Group Members. Moreover, the Master Trust covenants for Obligated Bond borrowings are Obligated Group-oriented and are not Hospital-specific. The bond indentures for each series of Obligated Bonds are identical for each Hospital and are always Obligated Group-based, rather than Hospital-based.

The terms of the postpetition adequate protection offered to the Obligated Bonds are no different. The adequate protection approved by the Bankruptcy Court clearly contemplates the continued joint and several nature of the relief as follows:

- adequate protections liens are joint and several as to the Obligated Group;
- adequate protection liens are subordinated and joint and several as to VMF and Holdings;
- adequate protection superpriority claims are joint and several as to the Obligated Group; and
- adequate protection superpriority claims are joint and several as to VMF and Holdings, but subordinated to the McKesson Claim, the Secured MOB I Financing Claim, and Secured MOB II Financing Claim.

Additionally, the Secured MOB I Financing Claim and Secured MOB II Financing Claim were granted joint and several adequate protection liens and superpriority claims subordinated only to

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the Obligated Bonds, with respect to the Obligated Group Members, and McKesson, with respect to VMF.

c. The Debtors Negotiated Major Contracts and Agreements as a Single Economic Unit.

Starting in 2015, after the BlueMountain Transaction, major contracts and agreements were negotiated or entered-into on a system-wide basis, such that counterparties dealt with the Verity Health System as a single economic unit. The Debtors received benefits by negotiating collectively, such as better terms or pricing, which resulted from the greater economies of scale of the Verity Health System. In light of these benefits, the Debtors standardized system-level contracting that normalized pricing for contracts (including physician-related contracts) across all Hospitals. The Debtors' critical system-wide contracts and negotiations include:

- group purchasing order contracts;
- collective bargaining agreements;
- other contracts;
- payor contracts;
- IT systems contracts; and
- health insurance and retirement benefits.

The restructuring that resulted from the BlueMountain Transaction further centralized the Debtors' purchasing functions. VBS, VHS, and VMF, for example, functioned as cost centers for the Debtors' system-wide operations. These cost-center Debtors did not generate revenue independently, and, as a result, are unable to repay obligations without transferring value from the Hospital Debtors. In light of the restructuring, separate-entity plans would likely be contrary to the expectations of creditors that viewed their agreements with cost-center Debtors as backed by the Verity Health System.

2. The Debtors' Affairs Are So Entangled That Consolidation Will Benefit All Creditors.

At first blush, the Debtors maintained the hallmarks of separate entities. The Debtors maintained separate boards for each entity, separate books and records, tracked intercompany

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transactions, and maintained separate bank accounts, as set forth in the Cash Management Motion. However, a more thorough analysis of the Debtors' finances and operations reveals significant interconnectivity, which would prove costly and time-consuming to unwind at the expense of recoveries in these Chapter 11 Cases. Accordingly, the interests of creditors are best served by deemed substantive consolidation.

"Consolidation under the second factor, entanglement of the debtor's affairs, is justified only where 'the time and expense necessary even to attempt to unscramble them [is] so substantial as to threaten the realization of any net assets for all the creditors' or where no accurate identification and allocation of assets is possible." *Bonham*, 229 F.3d at766 (citing *Augie/Restivo Baking Co., Ltd.*, 860 F.2d at 519). For example, in *SK Foods, LP*, the bankruptcy court found that "substantive consolidation will benefit creditors by avoiding the cost (assuming it is even possible) of trying to determine the proper characterization of intercompany transfers in order to ascertain who owes what to whom." *In re SK Foods, LP,* 499 B.R. 809, 827 (Bankr. E.D. Cal. 2013).

Here, there are also significant facts related to entangled affairs among the Debtors that weigh in favor of substantive consolidation. The Debtors engaged in the following complex, prepetition intercompany transfers (not always booked as intercompany transfers), combined accounting, valuation issues, and collective management that would prove difficult and costly to creditors to unwind or reconcile:

- VMF was historically supported by near-weekly funding from other Debtors. However, these contributions are booked as direct net asset contributions rather than intercompany loans. Further, the Debtors that provided funding to VMF have varied over time based on cash availability.
- The Restructuring Agreement provided $100 million of net asset funding to VHS; however, beginning June 2016, $74 million of this funding was transferred to Holdings (a non-Obligated Group Member), and booked as a direct net asset contribution rather than an intercompany loan.

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- Members of the Obligated Group transferred real estate collateral to Holdings (a non-Obligated Group member) to be used as collateral for the MOB Financings; however, this was not booked as an intercompany transfer.
- The initial capitalization of Holdings is understated given that the transferred property was based on book value. The book value of transferred assets in FY2016 was $21.8 million, but the FY2017 MOB I Loan Agreement provided for $46.2 million in financing based upon appraisals for the same asset transfers.
- Although, the Hospitals generally used their own, separate bank accounts, the intercompany transfer activity is significant. From July 2015 to June 2018, booked intercompany transfers exceeded $1.1 billion. Further, the transfers booked as "net asset transfers" exceeded $589.1 million for the same period.
- Management and decision-making was centralized following the BlueMountain Transaction. For example, BlueMountain replaced pre-transaction boards at each hospital with Blue Mountain nominees. Additionally, outside consultants were retained at the system-level and strategic plans were also focused at the system-level since the BlueMountain Transaction.
- Since the BlueMountain Transaction, decisions to hire physicians and determine contract terms are made jointly by the VHS Chief Medical Officer and individual Hospital chief executive officers.
- Hospitals benefitted individually from the system-level contracts. For example, SFMC's profitability is based on periodic Quality Assurance Payments. These Quality Assurance Payments are not only a result of the patient population, but also (i) the system-negotiated contracts which are incorporated in the Quality Assurance Payment formula, and (ii) consultants engaged by the Verity Health System to optimize Quality Assurance Payments for all of the Hospitals.
- SFMC's capital improvements (i.e., the construction of the new patient tower) were financed by tax exempt financings undertaken on a joint and several basis among members of the Obligated Group. This burden shared by the other members of the

Obligated Group compensated SFMC for the system's use of excess Quality Assurance Payment entitlements.

Unwinding the transactions to prepare separate-Debtor plans would require time and allocations and assumptions. By way of example, prepetition and postpetition allocations by the estates may be subject to challenge as follows:

- Purchase price allocations are inconsistent with the actual value of certain Debtors' assets. For example, SCC attributed value from the MOB Financings to SLRH and none to Holdings. SGM also attributes value from the MOB Financings to the Hospitals and none to Holdings.
- Allocation of DIP Financing proceeds among the Debtors will be challenging because the current allocation fails to account for the "net asset transfers" to VMF, reimbursement claims constitute potential adequate protection claims of the obligated bonds and MOB Financings, and the current allocation fails to track asset sale proceeds to the detriment of 2005 Series A, G and H Revenue Bonds.
- Professional fees must also be allocated among the Debtors if the Debtors cases are not consolidated. This task would require, for each time entry, an analysis of which Debtor, or Debtors, benefitted from the particular services. Although laborious, such an analysis directly impacts creditors if the cases are not consolidated given that Professional Claims receive priority treatment.
- The system-wide changes that took effect since 2015 severely limit any assumptions based on the Debtors' historic operations. The changes were significant and took place during the relatively short, three-year period between the BlueMountain Transaction and the Petition Date. The Debtors capital structure also changed significantly during the same time—the Debtors incurred liabilities in excess of $400 million related to capital investments, the 2015 Revenue Notes and 2017 Revenue Notes, the MOB Financings, the Unsecured Notes, and deferred fees under the Management Agreement.

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- The staggered timing of the SCC Sale and the SGM Sale compound the allocation challenges with respect to the Debtors' postpetition liabilities, particularly given that certain Debtors continue to operate in some capacity post-closing.

Moreover, different asset valuation or liability allocation assumptions will lead to different results in both asset allocations among Debtors and balances available for distributions to unsecured creditors. Given that the analysis necessarily requires substantial judgment, these assumptions would present a basis for objection and conjecture from creditors attacking the Debtors' separate plans. Preserving funds in the Estates and avoiding litigation costs maximizes value and weighs in favor of substantive consolidation under the circumstances in these Chapter 11 Cases.

XV.

POST-CONFIRMATION ISSUES

A. Modification of the Plan

The Debtors reserve the right to modify the Plan at any time before confirmation. However, the Court may require a new disclosure statement and/or re-voting on the Plan if the Debtors modify the Plan before confirmation. The Debtors may also seek to modify the Plan at any time after confirmation of the Plan if (i) the Plan has not been substantially consummated, and (ii) the Court authorizes the proposed modifications after notice and a hearing.

B. Post-Confirmation Status Reports

Until final decrees closing the Debtors' chapter 11 cases are entered, the Reorganized Debtors shall file quarterly status reports with the Court explaining what progress has been made toward consummation of the confirmed Plan.

C. Post-Confirmation Conversion or Dismissal

A creditor or any other party in interest may bring a motion to convert or dismiss these cases under § 1112(b) after the Plan is confirmed if there is a default in performing the Plan. If the Court orders these Chapter 11 Cases converted to chapter 7 after the Plan is confirmed, then all property that had been property of these chapter 11 estates, and that has not been disbursed pursuant to the Plan, will revest in the chapter 7 estates, and the automatic stay will be reimposed upon the revested property, but only to the extent that relief from stay was not previously authorized by the Court

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during these cases. The Plan Confirmation Order may also be revoked under very limited circumstances. The Court may revoke the Plan Confirmation Order if it was procured by fraud and if a party in interest brings an adversary proceeding to revoke confirmation within 180 days after the entry of the Plan Confirmation Order.

D. Final Decree

Once the Estates have been fully administered as referred to in Bankruptcy Rule 3022, the Reorganized Debtors shall file a motion with the Court to obtain final decrees to close these Chapter 11 Cases. The Reorganized Debtors shall be responsible for the timely payment of all fees incurred pursuant to 28 U.S.C. § 1930(a)(6).

Dated: September 3, 2019

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